“planting for our future...

Stora Enso 2009

...on today's shelves"

"In 2009 our company faced almost too many challenges to list. In essence, we – and the whole industry – entered the year with one fifth less demand and too much capacity. The speed and magnitude of this change had not been seen before. The good news is that we started to manage the company for this scenario way before the year began, and that helped us to achieve the best possible outcome from it.

When it came to the more positive developments of 2009, we continued to think long-term, emphasising that our actions in 2009 will help us to stay ahead in 2010 and beyond. I believe that as a result we are well on our way to ensuring Stora Enso remains a strong company."

Jouko Karvinen | CEO of Stora Enso

our promise

our company

our business

Publication Paper

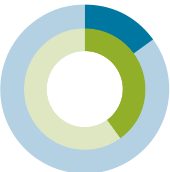
Stora Enso Publication Paper comprises the business units Newsprint and Book Paper and Magazine Paper. It produces a wide range of papers serving publishers, advertisers and printing houses.

Newsprint and Book Paper produces a wide range of standard newsprint and improved newsprint, book and directory paper grades. The book and directory paper range includes paper for hardback and paperback books, telephone directories and timetables.

Magazine Paper offers uncoated magazine paper mainly used in periodicals and advertising materials. Specialist and general interest magazines are significant customers of Stora Enso's coated matt, silk and glossy magazine paper, which customers also use for items such as supplements, home shopping catalogues and magazine covers.

Newsprint and Book Paper

Share of Group



- Sales **15%**
- Operating profit* **40%**

Capacity by country 2010

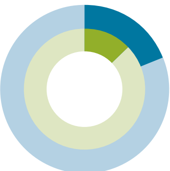
- Sweden **44%**
- Finland **24%**
- Germany **18%**
- Belgium **14%**

Market share and main markets

	Europe	Asia
Market share %	18	1
Main markets (% of sales)	83	14

Magazine Paper

Share of Group



- Sales **19%**
- Operating profit* **13%**

Capacity by country 2010

- Germany **33%**
- Finland **21%**
- Sweden **18%**
- France **11%**
- Brazil **6%**
- China **6%**
- Belgium **5%**

Market share and main markets

	Europe	Latin America	Asia
Market share %	17	40	2
Main markets (% of sales)	81	10	6

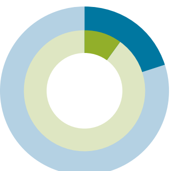
* Excluding non-recurring items and fair valuations

Fine Paper

Stora Enso Fine Paper produces high-quality graphic and office paper for printers and publishers, merchants, envelope converters, office equipment manufacturers and office suppliers.

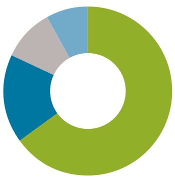
Stora Enso's graphic paper grades are primarily multicoated fine papers tailored for art books, annual reports, luxury magazines and brochures. The office paper grades include uncoated fine papers for office and digital printing, envelopes, notebooks and pads and business forms.

Share of Group



- Sales **20%**
- Operating profit* **10%**

Capacity by country 2010



- Finland **65%**
- Sweden **17%**
- Germany **10%**
- China **8%**

Market share and main markets

	Europe	Latin America	Asia
Graphic Papers			
Market share %	14	9	3
Main markets (% of sales)	70	7	20
Office Papers			
Market share %	12	0	1
Main markets (% of sales)	77	1	11

* Excluding non-recurring items and fair valuations

Packaging

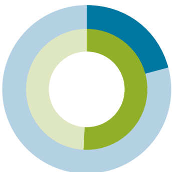
Stora Enso Packaging produces paper, board and packaging solutions for consumer goods and industrial packaging.

Stora Enso's wide range of **Consumer Board** products covers all major board categories and end-uses such as liquid packaging board, food service board, graphical board and carton board for use in packaging food, cigarettes, pharmaceuticals, cosmetics and luxury products.

Industrial Packaging products include corrugated packaging, containerboard, cores and coreboard, laminating paper, paper sacks, and sack and kraft paper. Stora Enso operates in every stage of the value chain, from recycling and pulp production to packaging production.

Consumer Board

Share of Group



- Sales **21%**
- Operating profit* **51%**

Capacity by country 2010

- Finland **49%**
- Sweden **44%**
- Spain **7%**

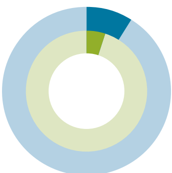
Main markets

	Europe	Asia	North America
Main markets (% of sales)	79	16	1

General market share not applicable due to nature of product portfolio.

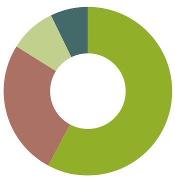
Industrial Packaging

Share of Group



- Sales **9%**
- Operating profit* **5%**

Capacity by country 2010[1)]



- Finland **58%**
- Poland **26%**
- France **9%**
- North America **7%**

Main markets

	Europe	Asia	North America
Main markets (% of sales)[2)]	84	9	4

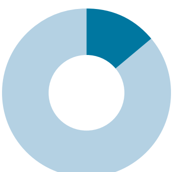
1) Excluding corrugated packaging
2) External sales
General market share not applicable due to nature of product portfolio.

* Excluding non-recurring items and fair valuations

Wood Products

Stora Enso Wood Products provides wood-based products and innovations for construction and interior decoration, and solid biofuels for the energy sector. Its recyclable products are made from high quality renewable European pine or spruce, and address living, building and packaging needs.

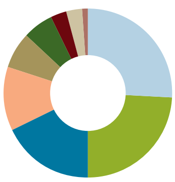
Share of Group



- Sales **14%**
- Operating profit* **-2%**

* Excluding non-recurring items and fair valuations

Capacity by country 2010



- Austria **26%**
- Finland **24%**
- Sweden **18%**
- Czech Republic **12%**
- Estonia **7%**
- Russia **6%**
- Latvia **3%**
- Lithuania **3%**
- Poland **1%**

Market share and main markets

	Europe	World
Market share %	4	2

	Europe	Asia & Oceania	North Africa & Middle East	North America
Main markets (% of sales)	61	20	18	1

Europe

Most of Stora Enso's sales, production capacity and personnel is in Europe, where the Group is a leading producer of pulp, paper and board. Eastern and Central Europe are important areas for manufacturing corrugated packaging and wood products. Stora Enso has faced structural issues in Europe because of overcapacity in publication paper and fine paper. As a result, the Group is investing selectively in its mills with long-term potential for a competitive cost structure.

Netherlands

141 employees
Amsterdam
WP
Corenso Edam
PACK

Great Britain

261 employees
Corenso UK
PACK

Sweden

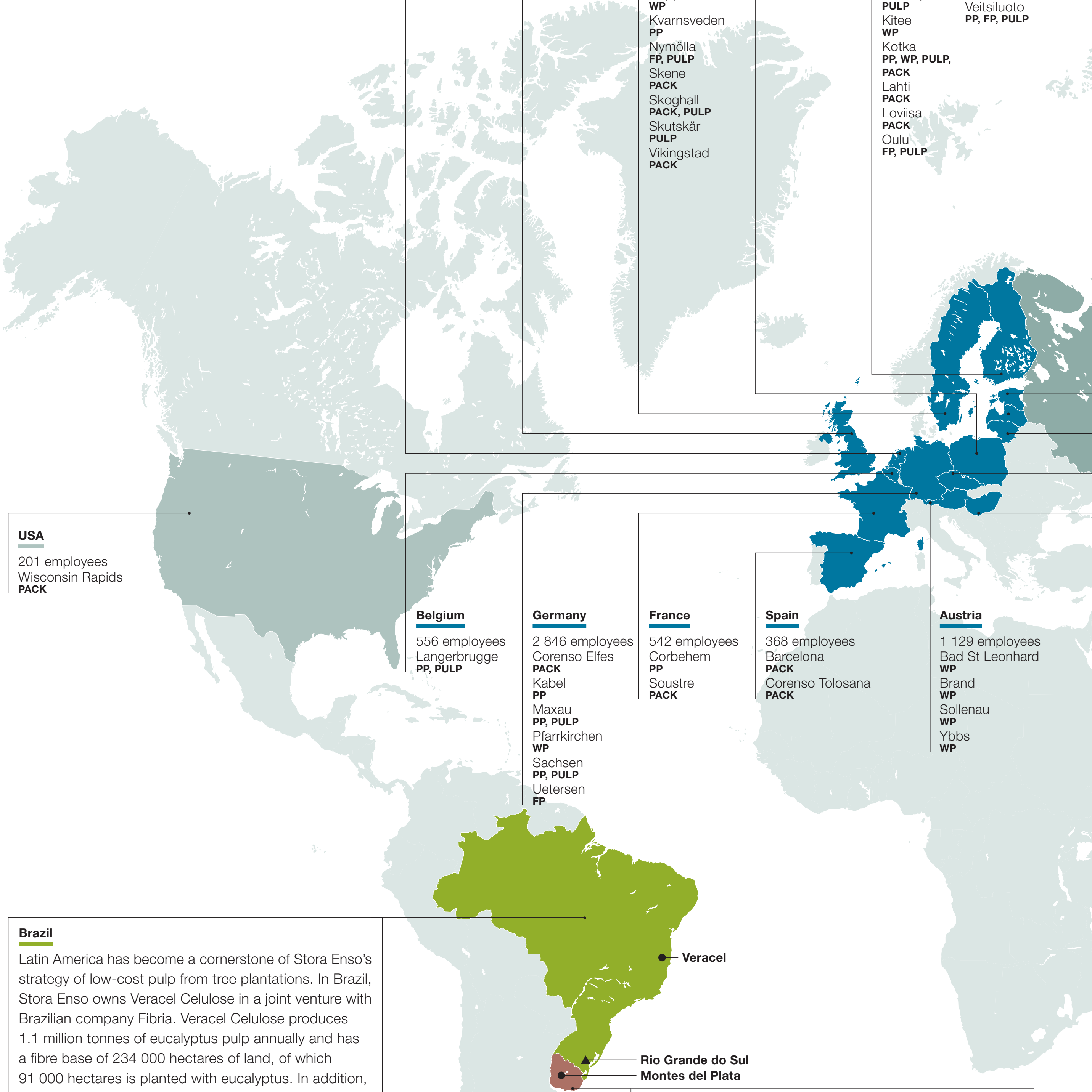
6 661 employees
Ala
WP
Corenso Svenska
PACK
Fors
PACK, PULP
Forshaga
PACK
Gruvön
WP
Hylte
PP, PULP
Jönköping
PACK
Kopparfors
WP
Kvarnsveden
PP
Nymölla
FP, PULP
Skene
PACK
Skoghall
PACK, PULP
Skutskär
PULP
Vikingstad
PACK

Poland

2 010 employees
Corenso Poland
PACK
Łódz
PACK
Mosina
PACK
Murow
WP
Ostrołęka
PACK, PULP
Tychy
PACK

Finland

8 246 employees
Anjala
PP
Enocell
PULP
Heinola
PACK
Honkalahti
WP
Imatra
PACK
Ingerois
PACK
Karhula
PACK
Kaukopää
PULP
Kitee
WP
Kotka
PP, WP, PULP, PACK
Lahti
PACK
Loviisa
PACK
Oulu
FP, PULP
Pori,
PACK
Ruovesi
PACK
Sunila
PULP
Tainionkoski
PULP
Tiukka
PACK
Uimaharju
WP
Varkaus
PP, FP, WP, PULP
Veitsiluoto
PP, FP, PULP



USA

201 employees
Wisconsin Rapids
PACK

Belgium

556 employees
Langerbrugge
PP, PULP

Germany

2 846 employees
Corenso Elfes
PACK
Kabel
PP
Maxau
PP, PULP
Pfarrkirchen
WP
Sachsen
PP, PULP
Uetersen
FP

France

542 employees
Corbehem
PP
Soustre
PACK

Spain

368 employees
Barcelona
PACK
Corenso Tolosana
PACK

Austria

1 129 employees
Bad St Leonhard
WP
Brand
WP
Sollenau
WP
Ybbs
WP

Brazil

Latin America has become a cornerstone of Stora Enso's strategy of low-cost pulp from tree plantations. In Brazil, Stora Enso owns Veracel Celulose in a joint venture with Brazilian company Fibria. Veracel Celulose produces 1.1 million tonnes of eucalyptus pulp annually and has a fibre base of 234 000 hectares of land, of which 91 000 hectares is planted with eucalyptus. In addition, Stora Enso owns Arapoti Mill jointly with Chilean company Arauco. Arapoti Mill produced 144 000 tonnes of coated magazine in 2009. In the state of Rio Grande do Sul, Stora Enso owns 45 000 hectares of land, around half of which is planted with eucalyptus. (See pages 34–37.)

397 employees
Arapoti
PP
Veracel
PULP

Uruguay

In 2009 Stora Enso and Arauco acquired the majority of pulp producer ENCE's operations in Uruguay on a 50/50 basis. The new joint venture company Montes del Plata ("Silver Forests") includes around 240 000 hectares of owned land and 16 000 hectares of leased land. This transaction secures the raw material for a potential world-class pulp mill in Uruguay – and gives Stora Enso a strong position in plantation-based pulp. (See pages 30–33.)

25 employees

Stora Enso has employees and production facilities in more than 35 countries worldwide. New growth markets such as China, Brazil and Uruguay hold great promise for the Group.

Estonia

554 employees
Imavere
WP
Näpi
WP
Tallinn
PACK

Latvia

255 employees
Launkalne
WP
Riga
PACK

Lithuania

212 employees
Alytus
WP
Kaunas
PACK

Russia

1 403 employees
Arzamas
PACK
Balabanovo
PACK
Impilahti
WP
Lukhovitsy
PACK
Nebolchi
WP

Hungary

164 employees
Komarom
PACK
Páty
PACK

Czech Republic

627 employees
Planá
WP
Zdírec
WP

China

The rapidly expanding Chinese paper and paperboard market offers huge demand for Stora Enso's products. The Group's actions in China include establishing tree plantations in Guangxi. These plantations could serve as a foundation for potential integrated pulp and paper or board production in the province to manufacture recyclable products for the local market from renewable natural resources. Stora Enso's Suzhou Mill produced 202 000 tonnes of coated fine paper and Dawang Mill produced 94 000 tonnes of super-calendered paper in 2009. In addition Stora Enso owns two coreboard plants at Hangzhou and Foshan. (See pages 26–29.)

1 874 employees
Dawang
PP
Foshan
PACK
Hangzhou
PACK
Suzhou
FP

KEY

PP	Publication Paper
FP	Fine Paper
PACK	Packaging
WP	Wood Products
●	Joint venture plantation
▲	Stora Enso's plantation project
■	Stora Enso's trial plantation

Stora Enso in brief

Stora Enso is a global paper, packaging and wood products company producing newsprint and book paper, magazine paper, fine paper, consumer board, industrial packaging and wood products.

Our future strategy will focus more on growth markets in China and Latin America, as well as fibre-based packaging, plantation-based pulp and selected paper grades.

Stora Enso's annual production capacity is 12.7 million tonnes of paper and board, 1.5 billion square metres of corrugated packaging and 6.9 million cubic metres of sawn wood products, including 3.1 million cubic metres of value-added products. The Group is listed in Helsinki and Stockholm.

AGM and capital distribution in 2010

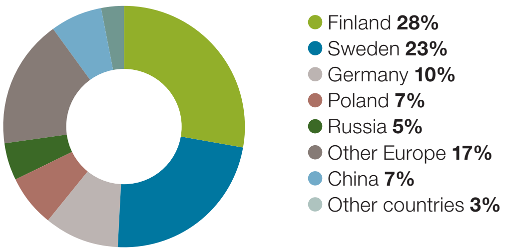
The Board of Directors proposes to the Annual General Meeting (AGM) that EUR 0.20 per share be distributed to the shareholders from the invested unrestricted equity fund of the parent company for the fiscal year ending 31 December 2009.

Stora Enso Oyj's AGM will be held at 16:00 (Finnish time) on Wednesday 31 March 2010 at the Marina Congress Center, Katajanokanlaituri 6, Helsinki, Finland.

19 March	Record date for AGM
31 March	AGM
1 April	Ex-date
7 April	Record date for capital distribution
20 April	Capital distribution payment effective

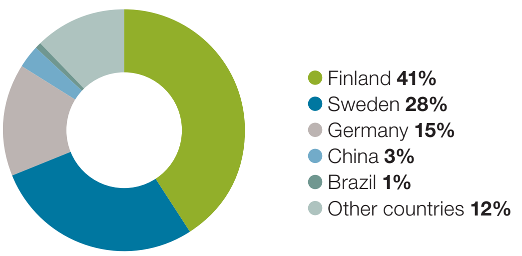
For more details, see Information for shareholders on page 48.

Number of employees by country 2009*

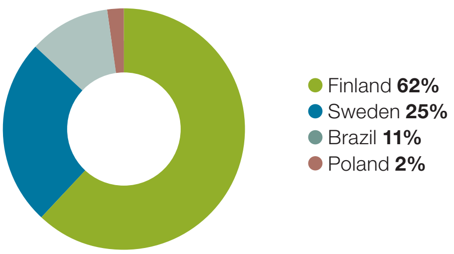


* Continuing operations

Paper and board capacity by country 2010



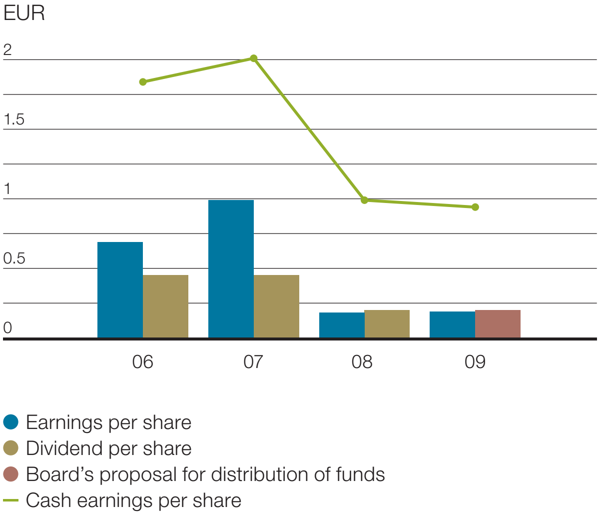
Pulp capacity by country 2010*



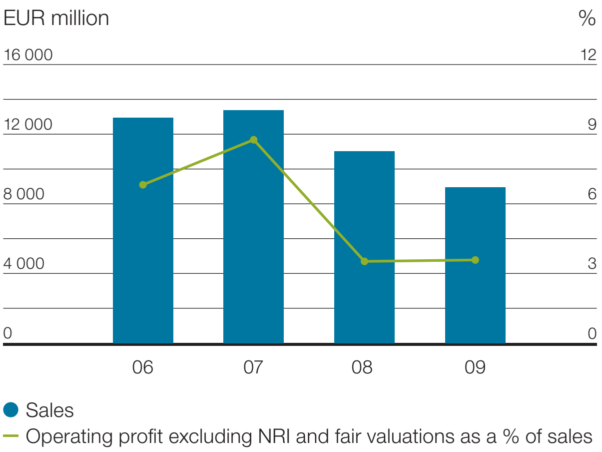
* Including Stora Enso's share of associated companies

Earnings and distribution per share

Total operations, excluding non-recurring items (NRI)



Sales and operating profit



Change for the better

Stora Enso's CEO Jouko Karvinen discusses the key events of 2009 and looks ahead to 2010 and beyond.

How did the organisation deal with the challenges of 2009?
Timing was the most critical element – we started the year three months early. In October 2008 we realised that 2009 would be different to anything that we had seen in the past 10 or 15 years. We had a clear focus: strong cash flow. We minimised operational costs and maximised cash flow through effective working capital management and reduced capital expenditure. I believe our results for 2009 show that these were the right actions at the right time.

We stopped what we thought was not really critical almost immediately. We became more selective, and focused on investing only where we saw sustainable long-term returns. Some areas of our organisation were tasked with cutting most of their spending while others were asked to cut almost nothing at all, because we see them as central to our future. Specifically, we made a point of not saying, “Everyone must save x% for the annual cost control programme of 2009.”

Our Next Step programme, which we launched in April, means that we are committed to building our future in the toughest operating environment imaginable – hence this year we have held onto our plantations in Uruguay and China. In the spring we acquired the majority of ENCE’s operations in Uruguay in partnership with Arauco. This gives us a strong position in low-cost plantation-based pulp and increases our strategic options in Latin America dramatically. Perhaps no one expected that in the current environment.

Why was the management team able to respond quickly and early to the crisis for demand?
Because by 1 January 2009 we had already put one quarter of maximising our cash flow behind us. That meant there was no discussion. We knew exactly what we were going to do as we had had practice. Furthermore, the management team of the company had worked together for more than a year. There was no need for introductions or big speeches; we just faced the reality and implemented.

I cannot emphasise enough how important this was. The tougher the environment – and it was really tough in 2009 – the more important it is that you do not end up talking and negotiating, that you hit the ground running.

Aside from good cash flow, what other benefits have there been from these early actions?
The cost structure is clearly lower. We have taken significant costs out of the system. As a result, our people and external observers have seen that this company can reduce its debt and generate cash in even the most brutal of circumstances. They understand that when some of the demand comes back – which it will – the positive returns of a lower cost base will be there.

In the autumn we said publicly that we had proof that our actions are working. The real news is that by the third quarter we had shown only one third of the impact of our announced

“For Stora Enso, change is not an option – it’s a necessity born of the need to prosper today and tomorrow.”

Jouko Karvinen | CEO of Stora Enso

programmes. So anyone watching us knows that there is some positive momentum in the company, and that this will help carry us through the challenges of 2010.

There have been permanent and temporary lay-offs in 2009 too. How have people in the company responded?

Those people who have faced permanent or very long temporary lay-offs are obviously disappointed and even angry. That is not a surprise and is very understandable. When we make hard choices to protect the company and the majority of its employees, some individuals and groups of employees suffer. We make these difficult choices to ensure that our mills with potential for a long-term competitive cost structure survive and improve through selective investments.

Very early in the year when demand went down by a fifth, we said that if we have paper machines for five paper rolls and customers for four paper rolls, then one would have to stand. I have been open and said that this is not about sharing the pain equally. Clearly it has been really difficult for the Stora Enso people who were most affected by this.

Unfortunately cost structure issues in Finland hit us, mostly outside our mill gates. This has led to closures and plans to cut down our capacity ever further. Curtailments were very dramatic in 2009 too. As a result our Finnish organisation had to take more downtime and temporary lay-offs than other parts of Stora Enso.

As angry and emotional as people are, however, I believe that there is also an understanding that in tough times sometimes you have to do things that hurt a minority of people to secure the future of the company and, with it, the future of the majority of its people.

Back in 2007 we took early actions with difficult consequences for our own organisation at a time when almost everyone else said that there was no need for action. People asked what we were doing. Now that we have all seen the trauma in the world economy and our industry, I sincerely hope people understand that the longer you wait, the bigger the damage tends to be.

Our people have shown resilience and loyalty. They have been willing to go through very tough times, more so than I had ever expected. To do that they need to believe that we are working for a better future, even if they do not see the impact yet. I hope the signal from both inside and outside the company is that we are fighting not just to get through the storm, but also to build our long-term future.

Are you satisfied with the way the company has responded to the challenges of 2009?

There is a saying that you should never be satisfied. The moment you say that you are satisfied, you go backwards, you give up on making tomorrow better than today, you give up on improving productivity, quality, cost and customer service. That is why I

The Stora Enso Leadership Forum was held in Stockholm in November 2009.

do not want to use the word "satisfied" but I do want to say that the people in our organisation impress me. Not only by their loyalty and resilience, but also by how well and quickly they responded when we had to restructure the company. I am not easily impressed, but this did impress me. Our speed is one of our competitive strengths, and I want us to maintain and even increase that speed.

I say that with a footnote. At a recent Leadership Forum, one of our younger colleagues said to me, "Jouko, as a company we are still an elephant, but at least this elephant now runs very fast." I was glad to hear that. However, I am sure my young colleague agrees with me that to get where we want to be in a few years we had better not remain an elephant.

Is that why the theme for this annual report is "change for the better"?

Yes. It takes time to get 27 000 people to hear, understand, challenge and act on any idea. It is not a question of people's willingness; it is the challenge of being truly understood, of working together effectively, of overcoming the inertia in getting things done.

Accelerating change comes from the thought that a big company is like a big flywheel. It takes time to get moving, but once it moves, nothing will stop it. We need to continue to push so that the flywheel moves faster.

I have experienced this energy of moving faster in our Leadership Forums with our top management and younger talents, the latter of which made up almost half of the participants in 2009. Every year more people seem to understand this message, which suggests that it is taking effect.

Another big event last year was restructuring from six business areas to four.

We consolidated Publication Paper by merging Newsprint & Book Paper and Magazine Paper, and we merged Consumer Board and Industrial Packaging to create a single unit called Packaging. Now we have four business areas: Packaging, Publication Paper, Fine Paper and Wood Products.

The goal of consolidating the business areas was to create more significant and powerful organisations without adding new layers to the Group. One of the first things we did when I came to the company was to remove an organisational layer to ensure fewer steps from top to bottom. This was an intentionally temporary change to get close to the business areas, learn more about them and start accelerated change. Later we reconsolidated – it was not an accident that we put Packaging together like it used to be, or created Publication Paper.

This consolidation is about far more than cost saving, although that is one clear benefit. When you change your structure, you open the door to rethinking what you really need. That is a lot more effective than the more traditional approach of identifying

cost cuts and then asking everyone to cut 20%. Actually that's suicide for any company because you kill the good along with the bad – it does not work in a market economy.

So the business areas will be more autonomous – why?
They will be interdependent and part of the Group, and the Group's priorities will always come first, but now they have true accountability and responsibility for managing their own profit and loss. I believe that in the past too many of the costs of the profit-and-loss responsible business areas were actually managed by a corporate function. We wanted to change that through the user boards in critical areas like Wood Supply, Logistics, Purchasing and Energy.

Our business area people serve third-party customers in competition with other companies, so they should drive our competitive strategies too. Everyone else is there to support the business, be it the corporate organisations or myself. All Group functions serve the business areas – the same business areas that earn our salaries by serving their customers and competing with our competitors.

For a company of our size, the reorganisation is not only about economies of scale. It is about focus, finding synergies that are mostly within the segments. The fact that we do paper in one business area, board in the other and mechanical wood processing in a third is not that exciting. Focus is what's exciting – focus on the customers and how to win their minds, focus on the channels to market and the resource base, meaning the fibre base, energy and all of that.

The priority for our people and their teams is to serve their customers better than the competition, rather than to worry about losing the last ten euros through the Group's economy of scale. I believe that there are also *dis*economies of complexity to consider. If you start controlling and co-ordinating too much across a big company, you lose much more than you will win by focusing on customers of the individual businesses. And yes, that means the business areas will compete internally for resources – where the company should and should not invest, expand, grow – as elements of the Group. Those choices are critical for the Group's future.

This underlines our theme of accelerating change. Some say that we have been hasty in our actions over the last two-and-a-half years, with the implication that we should have worked for at least two years to complete our strategy before acting. My response is that if I had sat in my office and thought about strategy for two-and-a-half years, we would be in big trouble by now. Change will never stop.

So are the business areas better able to differentiate themselves in the market now?
They have the focus and accountability, and the duty and the right to ask for what they need from the Group and its support functions. The role of the small top management team is more

Langerbrugge Mill in Belgium produces newsprint and uncoated magazine paper from 100% recovered fibre, sourced from the surrounding area. The mill is currently undergoing extensive upgrading with a revolutionary waste and biofuel burning boiler for energy production.

about strategic dialogue, managing performance to ensure that we deliver what we promise, and making portfolio choices on where to invest. As I have said, the future of this company is not about cutting costs or investing evenly and equally. I think we are getting better at discarding investment proposals that do not offer competitive differentiation or a return that clearly exceeds our cost of capital by quite a margin.

*Turning to the individual business areas, have **Wood Products** managed to turn things around from year 2008?*
Wood Products turned a profit by mid-year through really hard work and tough, aggressive capacity cuts – to the credit of the team, as it was not simply a recovery in the market. When that happened we started talking strategy, because I had promised that we would do so when they stop burning money, which they did!

If you look at their macro-economic factors and their market fundamentals, they are one of our really interesting businesses, because wood is a sustainable construction material today and even more so tomorrow. The strategic path for Wood Products is more added-value products – plus my favourite question: what can we do that cannot be copied overnight by every small competitor? Whether we are thinking about engineered wood products, Latin America or China, there's a common thesis across the business areas: are we – or can we become – the best in the world to do this?

I have high hopes that the Wood Products team can move on from merely restructuring to building a successful future.

Pharma DDSi is an intelligent packaging for pharmaceuticals. This highly advanced solution is based on an embedded microchip and conductive printing. It enables monitoring of a patient's compliance with their drug prescription, a prerequisite for effective medication.

*How did **Packaging** perform in 2009? Innovation seemed to be particularly important.*
We have some very strong packaging businesses that I sincerely believe have sustainable competitive differentiation. We have unique product know-how and long-term customer relationships. That means we can develop new solutions together with customers, which is not typical in our industry.

We have developed and launched new lighter board materials and consumer packaging solutions in 2009, such as DeLight Solution, a new paperboard tray packaging for the food packaging industry, and intelligent Pharma DDSi packaging for pharmaceuticals. DeLight Solution is based on our own Trayforma food packaging board that preserves food longer. Some 40% of food is thrown away uneaten, would you believe? Or did you know that 100 million tonnes of PVC is used every year for packaging, of which 90 million tonnes ends up in landfill?

Trayforma is a fibre-based food packaging material. It protects food, keeps it fresh longer, can be heated in a microwave or conventional oven, can be printed on and shaped for enhanced brand differentiation, and is environmentally friendly.

In innovation, one of our challenges is getting to market quickly and effectively. We are a big company. It is very nice to tell innovation stories but if we do not see revenues of hundreds of millions of euros in the medium term it will not really make a difference to the Group. We have learnt that in Packaging, and sharpened our organisation to ensure that our new research and development agenda is based on value-driven innovation and consists of a portfolio of selected projects aligned with our business strategy.

I see Packaging as one of our future cornerstones, given their strong strategy, new market development plans and track record. If anything, I would like Packaging to accelerate their own change.

I am also pleased with the way Packaging – and in particular Consumer Board – managed in 2009, especially the multiple challenges in the first half of the year. They had to face a sharp decline in demand due to both the financial crisis and the aftermath of the milk scandal in China, and prepare themselves for a potentially sharp increase in Russian duty on wood. Thanks to early capacity cuts and careful capacity management they improved price quality and increased profitability in some key segments. The consumer board market rebounded earlier than the paper market; we noticed that the third quarter was the same as the year before, and that the fourth quarter was above the same period in 2008.

*That brings us to **Publication Paper**. Can you tell us about the new investments at Langerbrugge Mill and Maxau Mill?*
We continued our power plant investments at Langerbrugge in Belgium and Maxau in Germany in 2009, even though it was a tough year and we cut capital expenditure dramatically. This was not an automatic decision, because we knew that it was going to be tough, but we stuck to our plans and now the beauty of it will be positive impact in 2010. As well as the environmental benefit, there will be material cost savings in early 2010. The lesson is that you have to be selective in your investments and not cut your future, which means that there will be deeper cuts in other areas, unfortunately.

*What about the challenge of paperless media to **Publication Paper**?*
What bothers me about this paperless media story, the idea that with the growth of digital media people need dramatically less paper, is that it is very much an emotional discussion, trying to copy-paste onto our European business the structural changes in North America. The underlying drivers are very different. Newspapers in the US are more media and advertising funded than in Europe, and adverts are a lot more of the actual physical content delivered to readers. We see a clear difference and bigger potential in Europe, where subscription is the greatest source of funding. So I do not quite buy the idea that we will see an identical repeat of the US situation in Europe for the same reasons.

The second issue, which is perhaps more important, is the notion that if a market does not grow you cannot make money out of it.

I heard a saying recently, a variation of a very old saying: "In God we trust; everyone else bring data." Every data set that I see says that we will have a newsprint market in Europe for decades to come. Will it be a smaller market? Yes, but that is okay because in newsprint, and selected areas in magazine paper, we have strong total cost positions and will keep improving them with investments like Langerbrugge and Maxau. You have to look at the total cost structure, not just the speed and width of your paper machine. It is no longer just about the assets; it is about resources, the total cost of production.

I am proud of what our team has done in a market that is not growing, as well as what our magazine paper people have been able to achieve in selected areas. I think that the newsprint team has done well against our peers for cost, managing our customer relationships and pricing quality.

*Finally, how was the year for **Fine Paper**?*

Fine Paper is one of the most challenged business areas because in the past couple of years a significant part of the virgin fibre base has effectively disappeared due to Russian wood duties. Fine paper is short fibre essentially, of which Russian birch wood used to be a significant source of supply for uncoated office paper. For coated paper we have been able to make use of our investment in the best pulp mill in the world at Veracel in Bahia, Brazil, which has been vital.

Fine Paper faces structural issues because of existing over-capacity in Europe, as well as EU-supported subsidies to build new capacity, which really does not help. Full credit to the Fine Paper team – they fought hard to maintain price quality and market share, and worked diligently with their channel partners and customers to make the best of the situation. Against the reality that we are in, which is pretty brutal, I am convinced that this team knows how to deal with any situation.

Customer relationships are crucial in Fine Paper because we sell a significant amount through merchants. Here we are talking about both channel relationships and relationships with big customers. Our Fine Paper business benefits from strong customer relationships.

Why has the Group begun using a Net Promoter Score in 2009?*

We have introduced a Net Promoter Score (NPS) to understand our customers' top five buying criteria and how we rank against these in comparison to our competition in all business areas. More importantly, we want to build competitive differentiation further by looking at criteria like service quality, product quality, delivery reliability and new product development – issues that really matter to our customers. The excitement for me is what actions we can take based on a better understanding of what our customers want and need.

Paper is a commodity product and there is nothing wrong with that. Our cost and quality position has to be good, and improve every year; we must never stop that. But I do think that we need to consider other aspects from the customer's point of view even more. NPS is a good tool for us to understand what really matters to our customers.

Can you comment on the Group's new strategy, which began to take effect in 2009?

In 2008 we set three strategic priorities: fibre-based packaging; cost-competitive plantation-based pulp as a raw material for paper and board in growth markets; and focusing on selected paper grades.

First, fibre-based packaging has an amazing story to tell of why it is important, why it will grow, and why we need to get rid of plastics and replace these with renewables in areas such as consumer food, liquid and consumer electronics. I think people understand this story and it is a very strong fit with Stora Enso, both for industrial and consumer packaging.

Second, investing in growth markets. I think this story is well understood and even wows people. The company invested early, not only in the joint venture pulp mill and plantations at Veracel in Bahia, but also in good growth options in China, Brazil and Uruguay. The investment case is pretty solid. We know what we are doing, our plantations are very productive and we are proud to say that we are doing things the right way. We have invited non-governmental organisations (NGOs) to see our plantations, which is an important part of our work. We have worked together with Brazilian NGOs, holding discussions and receiving support from many of them. As a result, we are in a very interesting position to consider the when, where and how of our next investment.

Third, the most challenging part of our strategy has been focusing on selected paper grades. This means becoming stronger in fewer paper grades. It takes considerable diligence to find opportunities to make this happen structurally in terms of consolidation or synergy. So far we have not found anything that would really make sense to our shareholders. That does not mean we are giving up, but the most important message to our people in the different paper grade businesses – like everybody else – is that we cannot wait while we try to find structural solutions that realise our strategy. Every day we have to improve. The good thing is that the team has understood this. Everything we do on our own now will make us a more interesting partner and create more value for our shareholders.

I think we have a good understanding of how to add value in consolidation, and what is and is not true synergy. We should keep doing everything we can on our own. We are not waiting for anything or anyone, nor are we giving up; we are trying to find solutions that will be effective, and create value for our shareholders.

Wood Products has very attractive market characteristics in terms of the planet, people and – when done right – profitability. There is quite a bit more work needed on the strategy, but if you look at the potential of wood-based solutions in both private and public construction, even in multi-storey buildings, then there are real opportunities for us to develop.

Related to that are solid biofuels. We have a liquid biofuel demonstration plant and we are one of the significant players in the Nordics for solid biofuels too, both for biomass and pellets. This is another interesting opportunity for the Wood Products team.

Are you concerned that all this talk of strategy could divert the Group from profitability?

There is an old saying about strategy that you do not need it if you cannot eat. I think we need to keep the crew improving operationally so that we are financially sound, and to maintain

** Net Promoter is a management tool that quantifies the loyalty of a company's customer relationships.*

Jouko Karvinen met with plantation workers in Guangxi province, China, in August 2009.

a balance sheet so that we can control our own destiny for events such as the need to invest in something rapidly when the opportunity comes.

Our investment in Uruguay in 2009 was a great example of that. It was important that we had the freedom, ability and credibility to make such an investment. And vice versa: we need to have the ability to take out capacity when required.

Can you tell us why Stora Enso made the investment in Uruguay?

The investment case for Uruguay is simple. Plantation-based pulp is one of those products for which cost curves are steep – in other words, you can build sustainable material cost differentiation. Fibre is a commodity but it is a global commodity, unlike paper and board. For instance, we use pulp from Veracel in Brazil at our Oulu fine paper mill in Finland and in Suzhou Mill in China. This is cost competitive even after the pulp has travelled from Latin America.

The challenge is that our investment decisions are 30-year bets. You need to consider not only the risks, but also variables like currency sensitivities, pricing, volume and timing. So good preparation is very important. Uruguay is a very interesting location for us. It has well developed legislation, education and land ownership regulation. Given the sheer size of our project there, if we invest in a mill, I think you'll see it reflected in Uruguay's gross domestic product.

The investment case in Brazil is very clear too. We know the country and the region. We have the support from the state and national organisations – albeit with some challenges. We feel very good about our corporate responsibility – a lot better than some of the media feels about it, to be precise. We are working with partners to give us more investment opportunities and avoid having to take all the risk on a single investment.

Why do you describe Stora Enso as a renewable materials company and not a forestry company?

The underlying challenges for the planet are to reduce its dependency on fossil resources, spend less on resources and reuse resources. "Renewable materials" captures all of those.

For some reason this industry has always been called the forest industry, whereas I think we should define ourselves by the value that we add. The car industry does not call itself the sheet metal industry – it is not there for sheet metal; it is there to build cars for consumers.

We have taken a step forward by saying that we are about renewable materials, instead of this or that product. We need to create customer and consumer value out of this in products, of course, but I do think that it is a very down-to-earth and honest statement of what this company is all about. It is also intentionally rather wide, as we do not know precisely where innovation and external factors will lead us.

Jouko Karvinen (on the right) in discussion with Oliver Salge, Head of Forest Campaign Greenpeace Germany. They met in Peurakaira, Finland, in October 2009.

In the past two-and-a-half years we have come up with many small examples of our focus as a renewable materials company, such as renewable paint cans, furniture made from corrugated board, and small houses for emergency use in natural catastrophe areas. I am not pointing them out as brilliant business but each is at least a conscious choice to focus on renewable materials.

Change never stops: it is a path. We are on a journey to figure out what this company will make money from and create value out of in 5, 10 and 20 years' time. We are not going to simply put a "bio" stamp on everything because to me that is not serious. I think that putting the word "bio" in front of everything is fairly dangerous because we could lose its real value if people start calling our product "bio-paper" as they now use the term biofuels. We will see additional tangible examples of our focus on renewable materials in 2010.

I think we have been reticent in areas that are totally new for us, like biodiesel or bio-gasification. Strategically, our biodiesel plant at Varkaus, which I hold in the highest regard, is actually a large-scale demonstration plant. I have been holding back my own team from over-publicising it, telling them to first walk before we talk too much.

Can you explain what you mean by the term "global responsibility"?

It is about being responsible for our actions worldwide. Our actions affect many people and we are responsible for this. I do not want to hear that something is not our problem, even if it is a sub-contractor or a local village issue. Plus, social responsibility is not only about land rights; it is also about people affected by mill closures in Finland and Germany going through hell. When we take responsibility for these situations we can make a difference.

At Baienfurt Mill in Germany, which we closed at the end of 2008, 220 out of 350 people who lost their jobs have gone on to further employment. At Summa Mill in Finland, which ceased production in January 2008, we have helped 30 entrepreneurs who lost their job to start their own ventures. It is never going to be a perfect fit, but these examples at least show that we can – and must – help the people affected to rebuild their lives.

We had curtailments and lay-offs last year, for example at both Sunila Pulp Mill and Varkaus Mill in Finland. By late August, just after publishing the potential shutdowns, we were already hard at work finding ways to support the local communities. Our thought was: why on earth should we wait before taking action to help these people? The sooner you act, the better.

We also need to think and act proactively about other challenges. One example is a long-running dispute about old-growth forests in Finnish Forest Lapland. This was resolved in November 2009, partly due to our efforts to facilitate an open dialogue involving Greenpeace, the Finnish state forestry enterprise Metsähallitus and local stakeholders. What really struck me about this case was the importance of learning from each other and the fact that we all came out of our trenches and found a basis for consensus.

Global responsibility means that we need to make sure we are doing the right thing every day, and value transparency and fairness in all that we do. For this reason, global responsibility cannot be a separate department in the company. I need to see myself as the Group's leader of global responsibility.

Global responsibility also means that we need to listen before we talk. In Guangxi, for example, we have to be clear that we are not there to teach people. We must respect the people and challenges there and recognise that our starting points are very different.

But lots of companies claim sustainability, don't they?
Sustainability is most often understood as the legal license to operate – but for us I would like to see it at the heart of everything we do. It should be a way for us to differentiate ourselves competitively one day.

We have not communicated well enough how exceptional this company is in global responsibility, which is a shame, as it is something for which the Group has worked very hard for a long time. In the Dow Jones Sustainability Indexes, we are the only forestry and paper company in the European DJSI STOXX index, and have been included since its launch in 2001. This is just one example of the awards that we have received and the rankings that list us. Awards do not make us a perfect company, but one of their great virtues is that the minute you stop working for them the awards body will throw you out. This fits very well with my basic belief that you have to improve, improve, improve.

In December 2009, I had the honour of signing the UN Global Compact's CEO Water Mandate, confirming Stora Enso's strong commitment to prioritising sustainable water use. Water scarcity is a global concern that is becoming increasingly important for Stora Enso and the whole paper and packaging industry. We will focus on this more in the future.

In 2009 I travelled to China to meet villagers in Guangxi and discuss our impact there. They told me that the plantations were making their lives better. The reality is that China is complex, particularly its land ownership issues, but I sincerely believe that we have a strong opportunity to make tomorrow better than today for our people and local business partners. I am passionate that we will get even better at this.

In Uruguay we must first do everything that we did right in Brazil and China, and then we must improve, do better than ever before. That will include communities and other stakeholders being part of the process of assessing the impacts of our efforts on the larger community. Technically, environmentally and socially, I want this to be the best project we ever did. And yes, I will say the same thing to our teams in China and Brazil too – improve, improve, improve.

Combining our strengths to stay one step ahead

Stora Enso's CEO Jouko Karvinen discusses the main events of 2009 with the heads of the four business areas, Juha Vanhainen (Publication Paper), Hannu Alalauri (Fine Paper), Mats Nordlander (Packaging) and Hannu Kasurinen (Wood Products). Their discussion includes the Group's business strategy and focus on global responsibility, the performance and plans of the business areas, and what lies ahead in 2010.

Jouko: To prosper in today's economic and environmental reality, we must do more than simply keep up with changes in the market and environment. We must remain one step ahead, anticipating the future. Last year we underwent many changes once again. How have changes inside and outside the company affected your business areas in 2009?

Mats: For Packaging it was a very busy year. Our new strategy for fibre-based packaging aims to maintain and develop our global leadership position. We launched this strategy after combining Consumer Board and Industrial Packaging into one Packaging organisation. We believe that this reorganisation will give us better knowledge sharing and a stronger team.

We believe that we saw the bottom of the cycle during the first quarter, and we have improved our earnings since then. Overall, 2009 has been about managing the present and setting up a growth strategy for the future.

Other critical actions we took included looking into our innovation process, reshaping our sales process and making some portfolio decisions. For instance, we are in the process of divesting our laminating business at Kotka Mill in Finland. We also had the opportunity to make longer-term investments, such as upgrading board machine 4 at Imatra Mills in Finland and building the power plant at Ostrołęka Mill in Poland. This new power plant will use multiple fuels, improving Ostrołęka Mill's energy sufficiency and efficiency, and thereby reducing its carbon dioxide emissions.

Jouko: In 2008 Wood Products underwent perhaps the most dramatic changes in our business. So how was 2009 for Wood Products, Hannu?

Hannu K: There were two highlights: turning the business around rapidly in the face of very tough market conditions and building a credible business case. Our team acted decisively, despite reduced volumes, a challenging price situation and issues with the supply and cost of raw materials. Our actions started to show positive results in the third and fourth quarters.

Jouko: I would say that you succeeded in a turnaround in the toughest of circumstances.

Prioritising cash flow

Jouko: How about Fine Paper? Your year turned out to be pretty challenging too.

Hannu A: It certainly did. Our first priority was to secure the business through this extremely difficult year. Thankfully we saw it coming way before the year started and agreed to prioritise steady cash flow, just like the other business areas. This meant that we chose to take a lot of downtime, which hit many of our mills hard but safeguarded our pricing and cash flow.

With the benefit of moving early and decisively, we announced an asset restructuring plan in August 2009 to shut down Imatra Mills' paper machine 8 at the end of March 2010. We also announced a conditional plan to close our Varkaus assets in Finland at the end of 2010, unless we see a clear recovery in uncoated fine paper demand. This early communication of the conditional plan for Varkaus remains difficult for our employees. However, I am convinced that the work we have done to look

The year 2009 was full of changes for every business area. Hannu Alalauri, Mats Nordlander and Juha Vanhainen (from left to right) are discussing the main events of the year and future actions.

at alternatives in the event of capacity closures will benefit both the Varkaus unit and the company as a whole.

Jouko: Fine Paper also had issues with fibre costs and other input costs like energy.

Hannu A: Yes, cost inflation has caused problems with our cost competitiveness over the past couple of years. We believe that the asset restructuring will put us back on an improvement track, especially when markets pick up. The markets are unlikely to be what they once were but with the new cost position we will be in good shape to serve our customers competitively.

Jouko: Do we think that we have done enough, and been fast enough?

Hannu A: Well, we have done what had to be done. These measures will have a direct and measurable impact on office paper costs. Enough is never enough, however, so we need to continue to build Fine Paper as a profitable and sustainable business in the long term. And we need to improve inside and outside mill gates. For example, one future key issue is the availability and cost of short virgin fibre – not only for our business but also for Nordic assets in our industry in general.

Jouko: Office paper is perhaps the most fragmented market segment, and competition is fierce. You've only been in your new role since April, Hannu, but it looks your actions have given you control of your future.

Timing was everything in 2009. I felt that we started off 2009 a little early – around October 2008, to be precise. Back then I said Happy New Year to you guys, and we agreed that cash was king. It worked, and worked fast, with strong cash flow materialising as early as the fourth quarter of 2008. If we had waited until 1 January 2009, the impact of our actions would have been more than a quarter late, for cash flow at least.

Anticipating changes

Juha: The traditional thinking is that it takes time for results to come through in our industry. That makes it even more important to anticipate changes in the environment and implement actions fast – this worked well for all of us in 2009. Structural changes in particular take time to show up in profit and loss statements.

Last year in Publication Paper we benefitted from actions that we took in October 2007. What we are deciding now will have an impact in 2011. That's also why we need to keep our options open – to ensure that there is always an actionable plan when things change.

Jouko: I couldn't agree more. The longer the delay from action to effect, the more important it is to plan ahead and act decisively. That was how you and your team in Publication Paper dealt with 2009, wasn't it, Juha?

Juha: Yes it was. Happily it turned out to be an exceptional year for us too – but not at first. European demand dropped very dramatically more or less overnight, something we hadn't seen before in Europe. We had to cease production of around 500 000 tonnes of newsprint and 700 000 tonnes of magazine paper. That is a lot to swallow in a few weeks.

Jouko: I think it is remarkable how well you were able to re-plan

Stora Enso Packaging produces paper, board and packaging solutions for consumer goods and industrial packaging.

Stora Enso Fine Paper produces graphic and office papers for printers and publishers, merchants, envelope converters, office equipment manufacturers and office suppliers.

Stora Enso Wood Products provides wood-based products and innovations for construction and interior decoration, and solid biofuels for the energy sector.

Stora Enso Publication Paper comprises the business units Newsprint and Book Paper and Magazine Paper. It produces a wide range of papers serving publishers, advertisers and printing houses.

your capacity for this new situation. You ran the lowest cost assets and curtailed the higher cost assets while maintaining industry-best customer service.

Juha: I am happy to agree. Customer service was critical – losing that last year would have damaged our business irreversibly. Permanent capacity closures have been a big issue in recent years of course. Another issue was overseas markets, which were not at all stable last year. Dawang Mill in Shandong province, China, experienced challenges in the first quarter as a result of ramping up production of a new product for the local market, although its volumes have developed very positively since June. Arapoti Mill in Brazil had various challenges relating to currency and exposure to North American imports to the Brazilian market.

Jouko: I guess the big question in Publication Paper is always price negotiations. For 2009 we did better than the investor community expected on pricing.

Juha: Absolutely right. Plus in late 2009 we had to be really on the ball in our customer negotiations, as expectations are high for price decreases in 2010.

Jouko: Juha, how will your work over the past couple of years position you for 2010, which is likely to be another challenging year?

Juha: We have done a lot of work on fixed and variable costs and are now harvesting the results of that. The biggest example was in April when we created a new organisation called Publication Paper by merging Newsprint & Book Paper and Magazine Paper. We put these two businesses together because they are similar, even if their customers are different. It gives us highly competitive economies of scale, and reduces our costs significantly. We do not expect an easy year, but we are well positioned to get through whatever happens.

Building dynamic, customer-focused businesses

Jouko: In having four business areas – Packaging, Publication Paper, Fine Paper and Wood Products – our intent is an organisation of businesses with more independence. Each will serve its own customers and be truly responsible for its own profit and loss statement and balance sheet.

There are always interdependencies but we are trying to reduce them. The goal is to build dynamic, customer-focused businesses that move fast and decisively – and use the company's economies of scale when they add true value to our competitive edge. The role of corporate functions like Wood Supply, Energy, Purchasing and Logistics changes to that of service organisations supporting the business areas and, through them, our customers. The business areas have guided these corporate resource organisations since the changes we made in early 2009.

Juha: We have benefitted from the results of these changes already. Personally I believe that we will improve further. The full potential of the new organisation has yet to be seen.

Jouko: That's good, Juha, because it means that in 2010 we should start seeing those results on a gradually increasing scale. I do not think we are done by far – one never is, I guess. I want to avoid too many new programmes, especially corporate programmes. I see the business areas taking the lead more and being on a continual path of improvement, in line with our organisational change. We do not need to add new programmes and plans; we need to improve the existing programmes and, most importantly of all, accelerate their implementation.

Accelerating change

Juha: I would have to agree that internally we still have much more to do. We cannot say that we have done everything we can. As you say, our challenge is to execute our plans for accelerating change on time or, preferably, ahead of time.

Jouko: I like that: don't just change – rather accelerate change. On the positive side we are starting to get credit for what we have done. After five quarters of strong cash flow and improving earnings, people are saying that we will actually get through this. But still my wake up call every morning is that we are late and not moving fast enough.

Mats: We all need to remember that wake up call. Without it we would never have managed the roller coaster of the past three years. In 2009 we had to take a number of tough measures to improve efficiency and manage supply costs carefully. That's a challenge we have shared with most of the other business areas.

Finally we ought to keep in mind that we have had the huge impact of Russian wood duties on the supply of fibre to our biggest units since mid 2007. We prepared for that and implemented it successfully by reshaping our Finnish wood sourcing and altering the recipe for paperboard pulp so that we no longer rely on Russian roundwood. We were able to do this in such a way that now we can even factor a zero duty solution into our operations, should that ever occur for some wood types.

Year 2009 was a year when we had to manage many things simultaneously. It was not only about cost; it was about demand, Russian wood duties, heavy restructuring, and so on. We are not short of challenges for this year either, although as a consequence of our actions I feel that we are better prepared for 2010.

Looking for improvements

Jouko: I believe that we learnt two significant things in 2009. First, stakeholders now respect the fact that our difficult actions are based on sound reasoning. More people realise that we act for the good of the company and majority of employees. And now that our support for the employees affected is starting to show encouraging results, I hope that people at least realise we are acting responsibly too. This is particularly important since the majority of cost issues facing us are actually outside mill gates.

Second, Stora Enso will never say, "We are the best," or "We are so good that it is for others to fix the rest." We continue to look for improvements and act upon them without waiting for anyone or anything, be it better times or anything else. I really hope that this becomes the spirit of the company on all levels, a kind of company DNA.

Hannu K: I would like to add that our business will become more about choice and focus, not simply running faster and faster. As a team we have agreed that most of our business areas are not global, as exciting as that word sounds. Nor do we believe blindly in the "bigger is better" school of thought on economies of scale.

Independent businesses

Jouko: We have changed our governance model so that our business areas are clearly accountable. That offers more freedom but also more responsibility. What do you think about being more independent in Fine Paper?

Hannu A: It all starts from the needs of our customers. We have to innovate and find better ways of working and new areas of business, and be able to identify these new areas ourselves. One of our goals must be to spend less time on internal, business area or Group matters, and more on what makes a difference for our customers. The individual business areas have different customers and, to a significant extent, different cost drivers. In Fine Paper, for instance, we can make many improvements to our supply chain without impacting the other business areas significantly. Our key account managers have a crucial role to play here with our customers. Critically, the reduced need to operate across all business areas simultaneously will give us a chance to speed up, reflecting the accelerating change thesis.

Jouko: Good to hear. Ideally, whatever we do on a Group level should come from the four business areas understanding how they need to compete and win customers, rather than getting together and trying to find an internal Group reasoning.

Hannu A: Exactly – even if this is a learning exercise for both the business areas and the Group. We have come through a lot as a team, including some pretty tough times, which helps us to deal with this change.

Juha: Now is the time to accelerate change. We should keep in mind that we have only just begun. Only recently did we start working on our information technology service network, for example, and plenty of other areas remain untouched. At least we know that we can change, and change fast, thanks to our recent experiences. In maintenance in Finland, for example, we were able to take out one quarter of our resource and lots of our cost. We need to find similar innovative solutions in other areas.

Clear accountability

Jouko: As heads of the four business areas, do you feel that you have clear accountability? Do you feel that your profit and loss is your own, and that you live with it for better or worse?

Hannu K: I think we do, although we still need to be better and more accurate at measuring true costs, which is not easy while we continue to share the cost of some of the Group resource organisations, even if this is for very good reasons. In the last few years we have learnt some interesting lessons about true activity-based costing and looking at marginal costs rather than averages. We might have made certain decisions even earlier had we been able to allocate costs to where they really belong.

Jouko: True, but better late than never. Today we have four business areas that win or lose with no corporate safety net. We want to use cost synergies and economies of scale across the Group where these exist – but only when this clearly improves cost and increases efficiency.

Hannu A: A good example is wood supply.

Mats: That is a good example. If we have four guys competing to buy the same wood from a single forest it will not improve

Hannu Alalauri, Mats Nordlander, Hannu Kasurinen and Juha Vanhainen (from left to right) declare themselves happy with the new governance model that offers more freedom and responsibility for the business areas.

anyone's situation. At least in the Nordic countries we work with naturally grown forests that have a mix of species and operations. This allows us to grow and select different wood types for our different operations, giving us operational efficiency.

Jouko: Are you happy with the way it is working?

Juha: Happy but never satisfied, as the saying goes. We are learning more every day. It took some time, of course, but now we are on our way.

Jouko: I said earlier that I do not want big new corporate programmes. Rather, we should implement what we have started while allowing new initiatives to come from your business areas. The spirit of this change must come through our people – your people. What you said is true, Juha. A year ago we prepared what is profitable today, so we need to keep our momentum.

Juha: At the same time our people are a little tired of implementing cost cutting. So we need to help them to understand that this is not only about cost cutting, even if that is a part of the journey in the years ahead.

Hannu A: We must bring the business closer to our people. We need more responsible entrepreneurship and fewer corporate programmes. Entrepreneurship means that if we find a diamond everyone should feel it is their responsibility to pick it up and bring it home.

Jouko: That is one good reason for clarifying the roles of the Group and the business areas. I really hope that our people understand that they should not wait for the Group to plan and act – or to find the diamonds, to use your words, Hannu.

Improving customer service

Jouko: Okay, let's talk about customers and what we are doing to strengthen relationships in tough times – tough times for us, but also for many of our customers.

Juha: In Publication Paper we are improving our customer service by concentrating on our back office operations in customer service centres. Both we and our customers drive this. Our reasoning is that it aligns with our customers, who are also centralising their purchasing, and renews our own organisation. Eventually our customer service centre will have enough capacity to handle a full product offering.

We are also empowering our salespeople who face local customers. We used to have local Group-level units that took care of business and customers in the countries. In future we will have front row salespeople in every country, while specialised organisations handle paperwork, invoicing and back office work. As a result, the customer will have fewer contact points yet increased accessibility. These actions will improve our service and save costs.

Mats: In Packaging we have different businesses but we are going in the same direction. Our step now is the first of many to improve our go-to-market process. We believe that customers will appreciate these changes when they experience an even more skilled and focused organisation. Simply, we want to be our customers' first choice.

Jouko: Good to hear. There is an old saying: it doesn't matter how you want to sell; what matters is how your customer wants to buy. It sounds as if all of you are driving for this.

Hannu K: For Wood Products this has been less of an issue because we have always had an independent sales organisation.

I would like to bring up the importance of knowing your customers and their businesses well, especially in a crisis. Take the example of managing customer credit. Our customers are having a tough time too, so the relationship between our salespeople and their customers really matters. One example is our North African business, which is a good business but has just a few simple agreements in place with customers. I applaud our salespeople for last year because whenever they promised that a receivable would not become overdue they got their money. That is because they have built good customer relationships.

Differentiating from competitors

Jouko: Newsprint gave up some customers in early 2009 due to low prices and volumes. Looking at the quarterly reports it seems that we did better than some of our competitors in improving price quality. So the question is what you can achieve based on factors other than lowest price.

Juha: Prices have become commoditised so we cannot differentiate our pricing much from our competitors'. However, we can be selective with our customers. We can think about our customer portfolio and where our natural home market is, or where the best place is to put a logistics centre in relation to our mill locations.

We monitor our performance against key customer buying criteria using our Voice (Value of Identifying Customer Expectations) programme, and improve as required. We have learnt that it is not enough to be the best overall; rather, it really makes a difference to be significantly better in factors like quality of customer service and reliability of delivery.

Jouko: I looked at our customers' top five buying criteria. Price is only one of the criteria. However, I agree that we are not yet sufficiently differentiated from our competitors. We really need to differentiate our offer much more strongly with better service, innovative products and so on. Another improvement opportunity!

Juha: I agree to a certain extent but price will always matter. So a continual drive to improve costs needs to be in our company's DNA too – not that we shouldn't search for other ways to win customers!

Hannu A: Service matters in Fine Paper. Small and medium-sized customers in fine paper and coated fine paper value service – specifically flexibility of service. An example of ours is having a sheet plant in the UK. This is an advantage because it allows us to be more flexible with our sheet sizes and work to shorter lead times. That differentiates us.

The big thing for us last year was customer relationships, which have been very positive. When the market collapse took place and volumes disappeared, everyone had the same problem. There was not enough cash, so we had to get rid of working capital, reduce inventories, take downtime and work with very short lead times. As a result, we have had much more dialogue with customers. That is good, and it means that when things are closer to normal again we will be more efficient and effective in our value chain, having got rid of some of the stumbling blocks in the business.

Towards improved profitability

Jouko: Now to the future and how we will continue on our path towards improved profitability while working on new strategic options. What can you say about our plans for 2010?

Hannu A: In Fine Paper we are implementing our asset restructuring, having completed much of the heavy work, with the exception of Varkaus. Nevertheless, there is some distance to go.

We believe that the asset restructuring will improve our cost position considerably. We have learned how to live through this challenging business environment and generate solid cash flow. I guess our targets for 2010 will not be any easier than those for 2009. The asset restructuring also means that we have become very flexible. We cannot predict year 2010 but the good thing is that we have flexibility in our asset base. That will help us.

Juha: In Publication Paper we have structural challenges in front of us in 2010. In Europe there are almost two million tonnes of unused capacity in both newsprint and coated mechanical paper, unfortunately.

A number of growth initiatives

Mats: When I look at 2010 for Packaging my goal is that we are able to deliver on some of our growth initiatives. We have a growth strategy and a number of growth initiatives. Our future gains will be in growing markets outside Western Europe – this is where we would like a greater presence. Our board business is growing outside Europe; our corrugating business is growing in Eastern Europe. In Western Europe our business is growing, albeit slowly.

The second initiative we are pushing is product innovation, a clear opportunity for us to differentiate ourselves. Our customers see a need for – and are expecting – innovation in packaging products and design. We can innovate in our way of working with brand owners and users too.

Jouko: So will we see new Packaging solutions coming to market in 2010?

Mats: Yes. We have just launched a new packaging product called DeLight Solution. We have also developed a new technology to recycle used beverage cartons and, as a result, have installed new equipment in Barcelona Mill to increase our recycling capabilities. Source reduction by lower grammages remains an important element of our product development. In addition, we are confident about our new board laminate material called Re-board.

Jouko: In 2009 we maintained selected innovation projects that we believe hold great promise for our future.

Mats: True. Last year in Packaging we took a more focused approach to our innovation strategy. Now our global organisation and strategy is steered by an innovation agenda. We are focusing our efforts on a few areas that show great promise – areas that we have selected carefully in a stage gate process. Focus and speed has been key.

To commercialise a product like DeLight Solution takes three to five years. There are other areas that take less time to bring to market, such as product upgrades to packaging

Stora Enso DeLight Solution is a customisable fibre-based consumer food packaging that is ovenproof and microwaveable, and can be frozen. It is more sustainable than traditional packaging materials like aluminium and crystalline polyethylene terephthalate (CPET), and is lightweight, recyclable and user friendly.

Re-board is an off-the-shelf board laminate material made from recycled paper that can itself be recycled. It is very light, strong and printable, and thus ideal for in-store displays, where it is already proving popular with a number of leading retailers.

materials. For instance, last year we made a major investment in board machine 4 at Imatra Mills in Finland and as a result developed a thinner, lighter board product that will be ready this year. Of course it is just a step improvement but significant nonetheless.

Wood-based solutions for urban construction

Hannu K: Our vision says that we need a new approach to materials, and in Wood Products that is one of our future cornerstones. The construction industry is one of the world's largest consumers of resources. The manufacturing and use of steel and concrete is a big drain on non-renewable natural resources and a major source of carbon emissions. Wood is an excellent alternative construction material and a golden opportunity for us to redress some of the effects of the traditional construction industry.

We believe that European softwoods will be our resource base for the future. We have no plans to produce wood products in overseas markets, although we have sold timber there for many years.

We have very competitive production capabilities for wood products in Northern and Central Europe. The difficult choice for us is that we have well over 20 mills and cannot develop all of them. We want to invest in carefully chosen value-added business.

Another important growth area for us is renewable energy from wood residues. We are already one of the largest players in solid biofuels, both pellets and biomass. We see real strength for us as a company in developing this business further.

To develop more advanced solutions for construction and interior applications, we are learning how to work best with architects, engineers and designers, and developing these competencies in-house for partnerships. Another big opportunity in wood-based solutions is urban construction, including multi-storey applications. We are also continuing to see major improvements in our work to make wood more durable and fire-resistant through the use of modification technologies. These remain the main focus areas for our research and development work.

Jouko: Would you say that your actions match trends in how construction materials are used?

Hannu K: We certainly think so. The construction companies are becoming more like project managers, bringing together solutions from various suppliers to assemble a final building, and seek ready solutions regardless of the material. Wood has to meet these demands as a construction material. In Central Europe we already offer ready-to-use concepts built from our Cross Laminated Timber elements, while our glue-laminated posts and beams form the core of modern Japanese post-and-beam wood-frame construction.

Investing in biofuel-burning boiler

Jouko: How about Publication Paper?

Juha: Overcapacity means that there is a structural challenge in front of us in Europe. In 2010 we will finish defining the core of our business and decide which units to develop.

In the energy sector, we are investing in a revolutionary waste and biofuel-burning boiler at Langerbrugge Mill in Belgium, which should start up early this year. Langerbrugge shows that with enough imagination you can develop innovative products in a mature sector. The mill will be an excellent example of a sustainable process because it uses only recycled paper to make fresh paper. Furthermore, waste from the surrounding region will be used as bioenergy to fulfil 100% of the mill's requirement for steam and heat energy and 50–70% of its electricity. This will make a major contribution to Langerbrugge Mill's cost efficiency, as well as giving it a tiny environmental footprint for its size.

Jouko: The point is that if you have the right cost position and asset and resource portfolio, you can make money, even in a mature sector.

Juha: A test case for us is new growth markets like Asia Pacific, where we have two years of producing and selling unique uncoated magazine products for different uses. Now is the time to harvest the results and experiences from that new unit and work out what to develop next. It is the same in Brazil where thanks to Arapoti Mill we are in a position to decide how to go forward in Latin America.

Securing the future for the majority

Jouko: Many parts of our company were affected by redundancies in 2009, quite heavily in some cases. We did what had to be done to secure the future of the company. We had to take some difficult decisions to save the majority of our employees and the company, although we are not home and dry yet. Despite this we have been able to find new employment for many of the people affected.

Hannu A: We have been open and transparent about this extremely distressing situation. An example of doing the right thing was the provisional plan we announced at Varkaus Mill in Finland. As hard as this was, and is, for our employees, it at least allowed us to plan early and openly for the different alternatives. Many people have strong feelings about this, although we have also seen much understanding. For instance, I met with some people who are potentially affected by the closure. One said to me, "We don't blame you. We know it's tough out there; the market is what it is. Just make wise decisions."

Jouko: We feel that these are the right things to do, but does that help when these people have to break the news to their families?

Juha: There is no other way to do it. We have been open about the tough situation and the need to plan for the worst. This is the fairest way. Everyone has the same information when it becomes available.

Hannu A: At Varkaus we funded an independent third-party study jointly with the Finnish Ministry of Employment and Economics. This was about creating alternative employment for the city of Varkaus and the employees of Sunila Mill, regardless of whether or not the mills continue running.

Jouko: That is a new approach because from an industry perspective the tradition is that you first announce a plan, then go through co-determination negotiations, and then try to find a solution once the mill is no longer viable. We took a different approach, taking action before we were even close to permanent closure decisions.

We said in the announcement for Varkaus Mill that we will look for alternative solutions for people. That takes guts because

some may accuse us of acting early – but what is the alternative? The longer you wait, the worse it will be for those affected.

Hannu A: We are doing everything we can to promote re-employment and re-education, and sponsor entrepreneurs.

Being responsible in new growth markets too

Jouko: We have focused on the Northern Hemisphere so far, but let's not forget that our presence in growth markets has been a cornerstone of our strategy of low-cost pulp from plantations for more than a decade. I am referring to Guangxi province in China, Rio Grande do Sul and Bahia in Brazil, and our new investment in Uruguay.

Mats: In China we are doing something that is unique, learning very fast and adapting our approach accordingly. We have a sustainable eucalyptus wood base for potential integrated pulp and paper or board production in Guangxi. We want to benefit local communities and believe that we can provide new opportunities for the local population.

One of the challenges we face is that in many cases we are generating economic value for zero or low-production forest land that had no or very little value previously. If the ownership of land use rights for such forest land is unclear for historical reasons, this can be a source of conflict – not against us, but between the parties claiming rights to the land. This leads to the need for all stakeholders, particularly our Chinese partner and local authorities, to reach a solution that is in full compliance with both local laws and regulations and global commitments like those of the United Nations, and is fair and transparent for all involved parties.

Jouko: True, but let's also remember that we are far from perfect, and that these new challenges are tough for everyone. There are 50 million people in Guangxi province and five million living in the area around our plantations. We need to accept that there will always be land issues and that each case is different. It is a huge learning experience, as is reporting it to the media. We want to be as open and transparent as we can to any external party interested in our Guangxi operations.

We had a case recently where one local individual fed misleading information on land conflicts to foreign reporters while offering us his silence for money. We said no because we will never pay for silence, even if it risks negative media attention, however inaccurate.

Mats: Indeed. We would like people who read the negative media reports to keep in mind that our project benefits the vast majority of the local population – not only by providing jobs and tax income, but also by introducing modern sustainable forestry management thinking and practices. These operational and managerial skills will have a positive long-term impact on the local community and forestry industry.

Jouko: That is why local government and local people have invited us to develop such a business. In turn we welcome other external parties interested in joining us to make the project even better.

One set of values

Mats: One universal set of values is a good way of expressing this. We believe that we can do something good in China with our operations and the products that we will make for the Chinese market, such as safe milk packaging from local sources.

We believe in fairness, transparency and sustainable practices. Our Chinese operations always try to work with locals on their own terms. For example, to ensure sustainable development of our plantations in China, we invited the United Nations Development Programme (UNDP) to carry out an Environmental and Social Impact Assessment (ESIA) of the Guangxi plantations in 2005 and 2006, which was the first ESIA in China. This assessment found no major environmental or social issues as a result of our Guangxi plantation project. However, it did highlight engagement with local landowners and communities as a priority, along with maintaining biodiversity through sound plantation management, both of which now drive our work in Guangxi.

Jouko: I think it is also worth emphasising that our mills and plantations in China are managed with the same environmental and occupational health and safety (OHS) standards as our operations in Europe and elsewhere. We are fully committed to building a long-term presence in China. As a result it is vital that we operate sustainable plantations benefitting both local communities and our business long into the future.

Mats: In China we use the best available technology in the world, and apply Group-wide OHS standards. Our experience is that these values are appreciated and well followed. Suzhou Mill in Eastern China, which Stora Enso has operated for 11 years, has some of the Group's lowest accident and absentee rates and best operational efficiencies. Arapoti Mill in Brazil has world-leading OHS. They have avoided accidents for two years – more than one million operational hours – an unprecedented length of time within our industry.

Jouko: It is good that you bring up OHS. If you look at the charts, there seems to be real improvement, even in Finland, our worst performing country by this measure.

Juha: Finland is showing much improvement. In January 2009 we adopted new zero lost time accident targets, new principles and several extraordinary actions. These include common rules across all Finnish units, common training, specific actions for unit heads, and managing current incidents instead of reporting historical accident data. Those ideas seem to be working well. The results are remarkable.

Serving the Chinese market

Jouko: There is also the question of how our activities in China appear to Europe. There is a theory that we are shutting down mills in Europe and moving jobs to China. This is a misinterpretation. The Chinese market is growing very fast, so we must increase our supply capacity to meet demand. This offers great growth opportunities for strong players like us. Meanwhile we must understand that we will not be competitive in the long term by serving the Chinese market from Europe.

Mats: Quite so. The reason we are in China is that the world's growth is driven by China. For example, its domestic market promises 4% growth per annum for paper and paperboard until 2025, and almost 50% of the world's growth in liquid packaging boards over the next 10–12 years. It also outpaces mature markets in carton board growth, and has large untapped potential in fibre-based packaging production. That magnitude of demand will not be met from Europe. Either we do this or someone else will.

Jouko: Absolutely. Together with our other growth markets, establishing an early position in China has the virtue of giving us access to huge future growth. This idea can sustain us in these challenging times because it speaks directly to two central pillars of our business strategy: investing in growth markets and investing in fibre-based packaging from sustainable pulp.

Perhaps I can sum up in terms of our central theme of remaining one step ahead by saying that in China, Uruguay and Brazil we need to focus very strongly on understanding local conditions and adapting our activities to fit the local environment and regulations. What we do now will have implications for a generation, by which time the world will be a very different place – a fairer and more sustainable place, I hope. The sooner our activities in all markets are profitable, sustainable and beneficial to all stakeholders, the sooner we will see the rewards as a business, people and planet.

Creating a brighter, long-term future in new growth markets.

Growth markets are by nature attractive for any industry or company. For Stora Enso the most interesting prospects are located in China, Uruguay and Brazil. In these countries our aim is sustainable competitive differentiation based on tree plantations. Tree plantations enable us to achieve significant cost differentiation in pulp production, especially in South America. We believe that this will be our competitive edge for decades to come.

In China our tree plantations and a potential production site are located in the province of Guangxi in southern China. As China is the world's fastest growing market, it offers us many other types of differentiation opportunities – from products to customer relationships.

Growth markets have challenges too, especially of a social and environmental kind. We are working hard to tackle environmental challenges by introducing best-in-class technology everywhere we operate. However, social and economic challenges cannot be tackled simply by introducing new technologies, or best practices from Europe. They must be addressed locally and through dialogue with local stakeholders, with understanding and the attitude that we are there to learn and share, not to teach.

Building a sustainable business in China by listening, learning and sharing our knowledge.

Stora Enso is focused on China because its rapidly expanding paper and board market offers huge demand for our products. Domestic demand for paper and board in China is forecast to grow by around 4% a year until 2025, further increasing China's global market leadership.

Today our operations in China benefit from the Group's experience in the region, which dates back to 1985, when we began operating there through a sales subsidiary in Hong Kong. In 1998 we bought the major share of Suzhou fine paper mill in eastern China, which produced 202 000 tonnes of coated fine paper in 2009 for the domestic market. In 2008 we began a joint venture in Dawang with Shandong Huatai Paper. Dawang Mill produced 94 000 tonnes of super-calendered (SC) magazine paper in 2009. In addition to paper production, Stora Enso owns two coreboard plants at Hangzhou in eastern China and Foshan in south-east China.

Establishing tree plantations in Guangxi

In 2002 Stora Enso began to establish tree plantations in Guangxi in southern China. These plantations could serve as a foundation for potential integrated pulp and paper or board production in the province, manufacturing recyclable products for the local market from renewable natural resources. Our target is to establish 160 000 hectares of sustainably managed plantations by 2011.

The potential mill would be located by a harbour providing access to major regional markets in China and other markets in the Association of Southeast Asian Nations (ASEAN). This investment would fit Stora Enso's focus on cost efficient plantation-based pulp, which is vital to ensure that the business continues to meet the world's paper and paperboard needs in a cost effective and sustainable manner.

The contribution of forestry to Guangxi's economy

Guangxi is one of China's less developed provinces and so combating poverty and developing rural regions is a top priority for local government. Guangxi's climate and population density are well suited to forestry, and as a result the local government promotes forestry, bringing investment and employment to the region.

Wangqiu Song, Stora Enso's Country Manager in China, has worked in the Chinese forest industry since 1999. "The overall impact of the plantations on the local economy is positive in terms of bringing wealth and jobs to less developed rural areas and helping a particular region to develop their local resources," he says of Stora Enso's presence in Guangxi. "In Guangxi, for example, hilly and remote areas that otherwise would be left unused or uncultivated bring economic, social and environmental value through tree plantations."

Guangxi's hot, humid summers and cool, dry winters are highly suitable for forestry. However, food production is always the first priority for land, and by Chinese law any change to the use of land for food production must be approved by central

government. The land that the local government of Guangxi offers to Stora Enso for plantation is defined as economic forest land, a separate category of land use. This helps to ensure that Stora Enso never uses lands for forestry that are meant for food production or habitation. We value and respect this principle of land use in China.

Balancing our impact on Guangxi

Stora Enso intends to build a sustainable business in China for all stakeholders. This means that the potential mill and plantations in Guangxi must minimise their impact on the environment while benefitting local communities and our business long into the future. As such, we will use best-in-class technology and world-class environmental specifications for our operations in China, just as we do wherever we operate.

At Guangxi we are, in the process of applying voluntarily for several internationally recognised certificates, including FSC (Forest Stewardship Council), ISO 14001 (International Organization for Standardization) and OHSAS 18001 (Occupational Health and Safety). In addition, China's National Forest Certification scheme uses our tree plantations as a pilot site.

Co-operation with the United Nations Development Programme (UNDP)

As part of ensuring sustainable operations, Stora Enso wants to understand, as early as possible, all environmental, social or socio-economic impacts a new project will have on a region, and how these could be mitigated.

To meet its goal of understanding local conditions, in 2005 Stora Enso invited the United Nations Development Programme (UNDP) to conduct an Environmental and Social Impact Assessment (ESIA) of its Guangxi plantations. This study also assessed employment opportunities for a potential future mill, expected to be in the order of 30 000 to 35 000 direct and indirect jobs from plantations and the mill, based on an industry standard. The initial study provided guidance to select issues that need to be addressed to make our investment sustainable and our cooperation with UNDP continues today with a new ESIA for the whole project tracking the current status and impact of the investment.

Land ownership in Guangxi

To obtain suitable lands for forestry operations, Stora Enso must obtain long-term land use rights in Guangxi, since forest lands, like any other land in China, are owned by the state and land ownership cannot be transferred to private persons or companies.

There are two types of forest land used by our plantations. One is state-owned forest land with land use rights belonging to local government; the other is social forest land with land use rights owned collectively by villagers. For social forest lands, Stora Enso agrees leasing contracts with the villages

Stora Enso is participating in the development of FSC forest management certification in China.

China is currently conducting a nationwide reform of its social forest lands. The intention of the reform is to allocate land use rights to private families.

that own the land use rights, a process conducted through local government. While this sounds straightforward, in reality land lease negotiations can reignite long-running land disputes going back decades.

Stora Enso has become involved in land use disputes. This culminated in 2009 when members of the Finnish media connected Stora Enso to violent land use conflicts in Guangxi. “Although Stora Enso was not directly involved in these disputes, we must become part of the solution,” says Mats Nordlander, Stora Enso’s Head of Packaging and Asia Pacific, and Executive Vice President. “We are improving our conflict resolution skills, building relationships with local villages and verifying the legality of any land that is offered to us prior to contracting it. In 2009 we established a direct complaint channel to deal with any stakeholder concerns and demonstrate our commitment to a fair and transparent way of working.”

Contractor competence development and working conditions

Stora Enso employs its local workforce in the Guangxi plantations through local contractors who often have limited business experience, and little awareness of social, environmental and health and safety issues before they work for us.

Charlie Cheng is Programme Manager in China for the Private Enterprise Partnerships of International Finance Corporation (IFC), an organisation that provides investment and advisory services to build the private sector in developing countries. Cheng has this to say on the province’s forestry sector employment infrastructure: “When it comes to Guangxi, the forestry sector is not quite up to date. There are only a few basic private contractors in the market. These consist mainly of unregulated individuals who rely on temporary migrant workforces of 15–20 employees. Typically they do not have official contracts and do not provide benefits or insurance to their employees. On the environmental side, the main challenge for Stora Enso is to raise the contractors’ awareness and basic understanding of their operations’ environmental impact rapidly.”

To increase the project’s benefit to the local economy, society and environment, Stora Enso is co-operating with IFC by working with local groups of small and medium-sized enterprises. These learn Stora Enso’s environmental and social principles and technical and management standards, subsequently using these to support Stora Enso’s operations.

“All parties benefit from the co-operation,” says Cheng. “First of all, local contractors will be able to develop their business skills, generate more income and create more jobs. Secondly, local rural communities receive more employment and an improving economic standard of living. The initiative also provides Stora Enso with a reliable and sustainable source of suitable business partners.”

Resettlement of local people

Another important issue for Stora Enso is the resettlement of 1 240 local people from 470 households who were displaced from its 250-hectare mill site at Guangxi. This is a relatively small percentage of the 40 000 people requiring resettlement as a result of the state’s industrial plan for the Tie Shan Gang industrial zone of Beihai. While local authorities handle the resettlement process, Stora Enso is actively monitoring the process with the Nanning Institute of Social Sciences, its own social engagement officers and a social scientist. The intention is to find ways of supporting families affected by the resettlement. Stora Enso is also helping to restore the livelihoods of people affected at the resettlement site through community training and re-education.

A foundation laid – but still much to learn and do in Guangxi

The plantation project in Guangxi, together with the IFC contractor development programme, will have a positive social and economic impact on the region, suggests Cheng. “This is an important achievement as poverty reduction and sustainable development in Guangxi’s rural areas is challenging for the regional government,” he adds.

This and Stora Enso’s other initiatives provide a good base on which to build for future operations in the region, and enable Stora Enso to remain a front-runner, reckons Wangqiu Song. “We are a pioneer when we find solutions with international partners like IFC and UNDP,” he says. “Not just because of the scale and timing of our plantations, but because we’re the first to implement modern forestry operations combined with sustainable practices, which in turn will help to build a brighter future in China for us all. We understand very well that this is a long and challenging journey for everyone involved – but together with our partners we are on our way to this brighter future.”

Despite these improvements, however, Stora Enso has much to learn about local conditions. “We must forget the idea that we are in China to teach, that we know better,” concludes Stora Enso CEO Jouko Karvinen. “Only by working hand-in-hand with local partners and the local community will we improve what we do every day. We need to take the initiative, from the land rents offered to local villages to the compensation and working conditions of our contractors’ migrant workers. Everything we do should be transparent and fair, be it environmentally, financially or socially. This must be the foundation of our project in Guangxi.”

From a promising partnership to a new forestry company in Uruguay.

In 2009, Stora Enso – together with Arauco, one of Latin America's largest forestry enterprises – acquired the majority of Spanish pulp producer ENCE's operations in Uruguay. The name of the new joint venture company between Stora Enso and Arauco is Montes del Plata ("Silver Forests"). This builds on an earlier collaboration between the two companies dating back to the 1990s and, most recently, on jointly owned plantations and a coated magazine paper mill at Arapoti in Brazil. Montes del Plata has announced a decision to initiate a feasibility study on Punta Pereira in Uruguay as the site for a possible future pulp mill.

Uruguay is an agricultural country with all the right ingredients for forestry, and an attractive prospect. Montes del Plata offers Stora Enso further growth in cost-competitive plantation-based pulp. Like our activities in Brazil, it is a major contribution towards our long-term strategic focus on plantation-based pulp and new growth markets.

The government of Uruguay is strongly supportive of the initiative, as it stated when the project was first announced to the public. To ensure that the country and local communities benefit economically, socially and environmentally, Stora Enso and Arauco are building a local company that adapts to local conditions and works together with local authorities and people. "We want Montes del Plata to be a Uruguayan company", says Nils Grafström, President of Stora Enso Latin America. "That means adapting to local conditions, and employing local people who understand how to best safeguard the social landscape, benefit the economy and address any contentious issues. The goal of our joint venture is to be the world benchmark in corporate responsibility from day one."

Montes del Plata comprises around 240 000 hectares of owned land, 16 000 hectares of leased land and a nursery. The new company will manage a total of 256 000 hectares in Uruguay, around half of which is already planted with pine and eucalyptus. It also includes ENCE's mill site at Punta Pereira, a port and barge terminal with a wood yard and chipping plant.

Many positives

This move strengthens Stora Enso's position in Latin America, a continent that offers many positives for the forestry industry. The region has much available land for cultivation, and has a temperate climate and fertile lands that are ideal for growing eucalyptus and pine. These mature from planting in around 7 and 15 years respectively, a remarkably short time compared to the 70–100 years or more it takes to grow pine forests in Northern Europe. Stora Enso was one of the first global forestry companies to operate in Latin America, and in that time has learnt – and continues to learn – much about how to operate there to the benefit of both its business and local communities.

Of all the Latin American countries, Uruguay is one of the most suitable for forestry. It has been geared towards agriculture for centuries, and is a modern society in all respects today.

The new joint venture company Montes del Plata ("Silver Forests") is owned jointly by Stora Enso and Arauco.

“Uruguay has exceptionally good conditions for growing plantation fibre and its forestry sector is developing rapidly,” says Arauco CEO Matías Domeyko. As a result, the quality of facilities, technology and personnel is high. The country is a stable democracy, and embraces the balanced development of its industry; for example, it has done much to avoid complex bureaucracy. Stora Enso’s Grafström has lived and worked in Latin America for 12 years and finds Uruguayan officials co-operative and easy to work with. “Our contact with government representatives has been very professional and we are encouraged by their openness to discuss our plans,” he says. “At the same time, the environmental and social demands on us are high; we welcome this as it matches our own views.”

Working together with local people

As potentially the largest ever single investment in Uruguay, the proposed mill will bring jobs and growth through investments in infrastructure, skills and social programmes, and make an impact on the gross domestic product (GDP) of a country of some 3.5 million people. This point is not lost on Charles Kimber, Director of Corporate Affairs and Marketing at Arauco, who states that Montes del Plata will act responsibly, implementing the highest standards in everything it does. “Uruguay is industrialising, and this is having an impact socially, economically and environmentally,” he says. “To ensure that Uruguay participates and benefits at the highest level, we must operate with the same standards of excellence here as we do everywhere.”

Montes del Plata will work with local people as much as possible. This will begin right away when local consultants are involved in the upcoming feasibility study to determine the viability of building a mill. Should the mill be commissioned, many local engineers and construction workers will be much in demand for the time it takes to build a greenfield operation. The local construction workforce is likely to have much of the experience required, reducing the need to bring in foreign assistance.

Once the mill in Uruguay is operational, Montes del Plata could employ up to 3 000 full-time people directly and indirectly. In addition, small and medium-sized enterprises such as transport companies, engineering firms, caterers, cleaning suppliers and so on will benefit from the pulp mill’s construction and maintenance, in itself a massive operation.

Since the ultimate goal of the company is to employ local people, training will be an important part of the joint venture’s activities, and another way to ensure that its operations are truly local. The newly established Uruguayan company will assign local workers to the facilities of Stora Enso and Arauco to experience first-hand the latest forestry techniques and technologies. It will also temporarily bring in key people from Stora Enso and Arauco with specific expertise. Such exchange programmes foster mutual understanding and trust, and build knowledge for future initiatives.

Investing in Uruguay will benefit local communities for generations to come.

In Latin America eucalyptus reaches harvesting height around ten times faster than the native tree species typically grown in Northern Europe.

A place for responsible business

We believe that sustainably managed plantations are crucial to ensuring the long-term success of forestry, providing jobs and supporting local development and wealth creation. Both Stora Enso and Arauco are committed to sustainable plantation management. ENCE's plantations have received FSC (Forest Stewardship Council) certification, and both Stora Enso and Arauco will continue to work towards FSC certification of Montes del Plata's operations.

Uruguay provides an ideal platform for sustainable business. "Uruguay is well developed environmentally, with robust legislation and a good balance of natural habitation and industry," says Kimber. Montes del Plata will maintain the natural habitat by pursuing its own exacting sustainability principles, such as respecting biodiversity, supporting forest certification and respecting the rights of people located around the plantations. The mill itself would use the best available technology to diminish its emissions to air and water.

Transparency is one of the cornerstones of Stora Enso's code of conduct. Montes del Plata will be committed to open lines of communication with local stakeholders, be they villagers, governments or non-governmental organisations (NGOs). This is good for business, as well as local communities. Grafström emphasises the need for full consultation with all stakeholders during the mill's planning phase, and full transparency about our activities and plans. "Local dialogue enables communities to learn about what we do and our values – as well as helping us to learn from local communities," he says.

Today there is no investment decision to construct a pulp mill in Uruguay. This will be based on the feasibility study and include profitability calculations, the mill layout, market considerations, environmental concerns, social factors and logistical solutions. The final decision will depend on all necessary licenses and governmental approvals, and the approval of the boards of Stora Enso and Arauco.

Using Brazil’s land responsibly for the benefit of its economy, environment and people, as well as our business.

Brazil and Uruguay have ideal conditions for fast-growing eucalyptus and pine plantations thanks to favourable soil, temperature and rainfall. Furthermore, both countries have high environmental standards. As a result, Stora Enso sees the region as a cornerstone of its strategy of low-cost pulp from tree plantations.

Our experience in Brazil precedes the merger of Stora and Enso in 1998. In 1997 Stora invested in plantation company Veracruz Florestal through a joint venture with the Brazilian company Odebrecht, which was later replaced as our partner by Aracruz Celulose (today Fibria). After the merger of Stora and Enso, we continued to invest in Brazil. As a result, the joint venture constructed Veracel pulp mill in the state of Bahia, and began operations there in 2005.

The joint venture company – today Veracel Celulose – comprises a state-of-the-art pulp mill that produces about 1.1 million tonnes of eucalyptus pulp every year, as well as 212 000 hectares of land, of which 91 000 hectares is planted with eucalyptus providing fibre to the pulp mill.

In addition to Veracel, Stora Enso initiated a project in 2005 to acquire land to establish plantations in the state of Rio Grande do Sul, in the south of Brazil. Today we own 45 000 hectares of land, of which around half is planted with eucalyptus. In 2006 our activities in Brazil were further expanded through the purchase of Arapoti Mill in the state of Paraná. The mill produced 144 000 tonnes of coated magazine paper in 2009.

Planting and conserving native forest

Stora Enso adopts international certification to ensure that our plantation operations fulfil widely recognised standards for responsible management of plantations.

To ensure compliance with local laws and ownership rights, we establish our plantations on lands that are not allocated for land reform, and we buy our lands from private owners. More than 97% of Veracel’s tree plantations are located on lands previously used for cattle, where heavy grazing over a period of decades has degraded the original vegetation.

We never destroy rainforests or other valuable ecosystems when we establish our plantations. We map each of the lands to be planted meticulously to identify and protect valuable or vulnerable areas.

When we first established Veracel’s plantations in the south of Bahia in 1991, less than 7% of the Atlantic Rainforest’s original cover remained in the region. Today around 100 000 hectares – about 50% – of Veracel’s lands are conservation areas (the legal requirement is 30%). These form part of Veracel’s Atlantic Rainforest Program for natural regeneration and active restoration of the rainforest.

Veracel’s plantations are certified according to FSC (Forest Stewardship Council) and CERFLOR (Brazilian Program of Forest Certification).


ALUIZIO

Every year Veracel replants some 400 hectares of land with native tree species. By the end of 2009, Veracel had restored more than 3 500 hectares of Atlantic rainforest by planting more than 3 million trees. Veracel also protects all existing remnants of natural forest, and aims to connect these remaining patches to form forest corridors, helping to preserve flora and fauna.

Instituto BioAtlãntica (IBio), a local conservation non-governmental organisation (NGO), helps Veracel to choose priority areas for reforestation to build corridors connecting the larger rainforest fragments in South Bahia.

Benefits for local communities

Our plantations and mills improve employment and income levels in the areas where we operate. The benefits of our investments go way beyond the people who work at our facilities to many others, particularly the communities around our plantations. A study published by the Federation of Industries of the State of Rio de Janeiro (FIRJAN) states that between 2000 and 2006 the city of Eunápolis, where Veracel is based, enjoyed more positive development trends on average than the state of Bahia. The figures were as follows: for employment and income, a 33% improvement in Eunápolis versus a 23% average in Bahia; for education, 38% vs. 28%; and for healthcare, 24% vs. 5%. These findings are similar to those of the index published by the United Nations Development Program (UNDP).

Zander Navarro, a land reform specialist and an associate professor at the Federal University of Rio Grande do Sul*, states that such investments are beneficial to the country and welcomed by its people. “Investments in forestry in the south of Rio Grande do Sul are welcomed by most of the population and economically and technically recommended for that region,” he says.

Veracel employs 3 140 people full time directly and through contractors at its mill and plantations. According to a study conducted in 2007 by Brazilian research institute Fundação Getulio Vargas, Veracel supports approximately 13 000 jobs in the Brazilian economy, including people employed at the mill.

Social engagement and open and transparent stakeholder dialogue

As part of our long-term commitment to acting responsibly in Brazil, Stora Enso wants to work with local partners to improve living conditions in the communities where the Company is active. In Bahia, Veracel is currently supporting 13 different social projects, covering wealth generation, health, education and infrastructure in various municipalities where Veracel has its plantations.

To increase understanding of important global forestry issues, Stora Enso has participated in The Forests Dialogue since 2003. This is an international initiative that promotes action between forestry companies, environmental and social NGOs

** Zander Navarro is also a research fellow at the Institute of Development Studies, UK, and a special advisor to the Brazilian Ministry of Agriculture.*

Brazil's Landless Peoples' Movement (the MST) was formed in 1984 to address unfair access to land in the country.

and other key stakeholders. In Rio Grande do Sul, The Forests Dialogue has focused on plantations and water, and regional land use planning. In South Bahia, where Veracel operates, it has supported regional land use planning, tree farming and the launch of the pact for the restoration of the Atlantic Rainforest.

We keep open lines of communication with local communities. In Rio Grande do Sul, our Good Neighbour initiative informs local people about our operations, solves problems and prevents conflicts. We also invite neighbouring officials, academics and schoolchildren to visit our operations so that they can find out more about what we do and discuss concerns.

Despite these initiatives, our plantation operations in Rio Grande do Sul and Veracel's operations in Bahia are criticised by some NGOs. As a result, we have much to do to improve our relationship with these local communities.

In Brazil the distribution of land has been a national issue since the 1950s, giving rise to several local movements, among them the Landless Peoples' Movement (Movimento dos Trabalhadores Rurais Sem Terra or the MST). The MST was established in Brazil in 1984 to address unfair access to land and the need to implement a policy of land reform in a country with the world's second highest concentration of land ownership.

The MST has criticised our land use and plantation operations. In 2009, the MST invaded and occupied several properties at Veracel, leaving only after lengthy negotiations involving the local government of Bahia. Veracel and the local MST are continuing discussions in Bahia, mediated by the local government, to find common ground for better co-operation. We have found this to be the only successful approach to such issues.

Sharing our lands with local stakeholders

Our goal in Brazil is fair and responsible use of the land in close partnership with local communities and people. Land multi-use is one way to do this. This is when we grant local farmers access to our lands that are able to support additional forms of agriculture and farming alongside our forest plantations.

In Rio Grande do Sul, for example, local beekeeper associations use our lands for beekeeping and honey production, and farmers use them for cattle grazing. At Veracel, locals use our lands for sustainable piassava extraction, beekeeping, manioc cultivation (a staple food in the region) and eucalyptus handicrafts.

As well as benefitting local communities, these initiatives foster understanding, helping us to respect the culture and rights of the local people who live around the tree plantations.

Board of Directors

Claes Dahlbäck
Chairman of Stora Enso's Board of Directors since December 1998. Independent of the Company*. Born 1947. M.Sc. (Econ.), Ph.D. h.c. Swedish citizen. Owns 2 541 A and 32 604 R shares in Stora Enso.

Ilkka Niemi
Vice Chairman of Stora Enso's Board of Directors since March 2005. Member of the Board since March 2001. Independent of the Company and the significant shareholders. Born 1946. M.Sc. (Econ.). Finnish citizen. Owns 8 233 R shares in Stora Enso.

Gunnar Brock
Member of Stora Enso's Board of Directors since March 2005. Independent of the Company and the significant shareholders. Born 1950. M.Sc. (Econ.). Swedish citizen. Owns 9 812 R shares in Stora Enso.

Dominique Hériard Dubreuil
Member of the Board of Directors since March 2006. Independent of the Company and the significant shareholders. Born 1946. B.A. (Law), M.A. (Public Relations). French citizen. Owns 6 812 R shares in Stora Enso.

Birgitta Kantola
Member of Stora Enso's Board of Directors since March 2005. Independent of the Company and the significant shareholders. Born 1948. LL.M. Finnish citizen. Owns 9 312 R shares in Stora Enso.

Juha Rantanen
Member of Stora Enso's Board of Directors since March 2008. Independent of the Company and the significant shareholders. Born 1952. M.Sc. (Econ.). Finnish citizen. Owns 7 312 R shares in Stora Enso.

Hans Stråberg
Member of Stora Enso's Board of Directors since April 2009. Independent of the Company and the significant shareholders. Born 1957. M.Sc. (Eng.). Swedish citizen. Owns 2 885 R shares in Stora Enso.

Matti Vuoria
Member of Stora Enso's Board of Directors since March 2005. Independent of the Company and the significant shareholders. Born 1951. LL.M., B.Sc. (Arts). Finnish citizen. Owns 14 812 R shares in Stora Enso.

Marcus Wallenberg
Member of Stora Enso's Board of Directors since December 1998. Independent of the Company*. Born 1956. B.Sc. (Foreign Service). Swedish citizen. Owns 2 541 A and 10 527 R shares in Stora Enso.

Jan Sjöqvist, member of Stora Enso's Board of Directors since December 1998 until his resignation on 1 April 2009. He was independent of the Company and the significant shareholders.

The independence is evaluated in accordance with Recommendation 15 of the Finnish Corporate Governance Code. The full recommendation can be found at the web address www.cgfinland.fi. The significant shareholder according to the Recommendation is a shareholder who holds more than 10% of all company shares or the votes carried by all the shares.

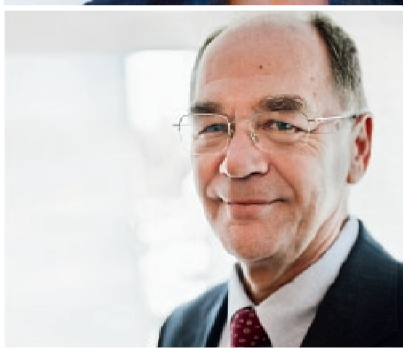
* **Claes Dahlbäck** (Senior Advisor and member of the investment committee of Foundation Asset Management) and **Marcus Wallenberg** (member of the investment committee of Foundation Asset Management) are not independent of significant shareholders of the Company.











Top to bottom/left to right: Claes Dahlbäck, Gunnar Brock, Birgitta Kantola, Matti Vuoria, Juha Rantanen, Hans Stråberg, Marcus Wallenberg, Dominique Hériard Dubreuil and Ilkka Niemi.

Group Executive Team

Jouko Karvinen
Chief Executive Officer (CEO) of Stora Enso. Born 1957. M.Sc. (Eng.). Finnish citizen. Owns 43 833 R shares and has 157 646 (2003–2007) options/synthetic options in Stora Enso.

Hannu Alalauri
Executive Vice President, Fine Paper. Born 1959. M.Sc. (Chem.), eMBA. Finnish citizen. Owns 6 738 R shares and has 30 000 (2003–2007) options/synthetic options in Stora Enso.

Hannu Kasurinen
Executive Vice President, Wood Products. Born 1963. M.Sc. (Econ.). Finnish citizen. Owns 5 944 R shares and has 48 750 (2003–2007) options/synthetic options in Stora Enso.

Mats Nordlander
Executive Vice President, Packaging and Asia Pacific. Born 1961. Dipl.Eng. Swedish citizen. Owns 5 272 R shares and has 30 000 (2003–2007) options/synthetic options in Stora Enso.

Markus Rauramo
Chief Financial Officer (CFO) of Stora Enso. Born 1968. M.Sc. (Econ. and Pol. Hist.). Finnish citizen. Owns 6 706 R shares and has 35 000 (2003–2007) options/synthetic options in Stora Enso.

Bernd Rettig
Executive Vice President, Technology & Strategy, Country Manager Germany. Born 1956. M.Sc. (Eng.). German citizen. Owns 9 014 R shares and has 102 500 (2003–2007) options/synthetic options in Stora Enso.

Elisabet Salander Björklund
Executive Vice President, Wood Supply, HR, Sustainability and Latin America, Country Manager Sweden. Born 1958. M.Sc. (For.). Swedish citizen. Owns 20 208 R shares and has 72 500 (2003–2007) options/synthetic options in Stora Enso.

Juha Vanhainen
Executive Vice President, Publication Paper, Country Manager Finland. Born 1961. M.Sc. (Eng.). Finnish citizen. Owns 5 365 R shares and has 51 250 (2003–2007) options/synthetic options in Stora Enso.

Aulis Ansaharju, Executive Vice President, Fine Paper and **Veli-Jussi Potka**, Executive Vice President, Industrial Packaging and Russia, were members of the Group Executive Team until the reorganisation of the company on 23 April 2009.

Hannu Ryöppönen, Deputy CEO, responsible for Strategy, Purchasing and IT, retired on 1 April 2009.

Options/synthetic options were issued annually between 1999 and 2007.
Enso-Gutzeit became Enso in May 1996.
STORA and Enso merged in December 1998.

Top to bottom/left to right: Jouko Karvinen, Elisabet Salander Björklund, Markus Rauramo, Hannu Kasurinen, Bernd Rettig, Mats Nordlander, Juha Vanhainen and Hannu Alalauri.

"A company is nothing without the hard work, dedication and passion of its people. This was never more true than in 2009, a year that was tougher than any in recent memory for our industry. Some mills and units have performed extremely well, while others have struggled to survive.

That together we appear to have survived such testing conditions is laudable – that we have done so while achieving four consecutive quarters of strong cash flow, a leaner and more focused organisation, and a winning vision to take us into 2010 and beyond is nothing short of remarkable.

This is entirely down to the commitment and courage of our people, and for this I extend my very sincere thanks to each and every one of you. I am not saying that our job is done, but we have at least made a powerful beginning, and for that we should all be extremely proud."

Jouko Karvinen | CEO of Stora Enso

Financial performance 2009

Our financial performance in 2009 met our expectations, although the results were not good in absolute terms. Our full year operating profit excluding non-recurring items and fair valuations was EUR 321 million. As stated in our fourth quarter and full year 2009 interim report, our cash flow from operations was very strong at EUR 1 261 million, or EUR 837 million after capital expenditure. In addition, our earnings improved in each quarter. I am very impressed that our team was able to achieve these results in an extremely difficult environment where sales dropped 19%.

I am particularly happy that we were able to generate operating cash flow of EUR 496 million in the fourth quarter – our best since the fourth quarter of 2006. In addition, effective working capital management and capital expenditure control enable further cash flow improvement.

We have worked extremely hard on all fronts to achieve these results. Compared to previous year we reduced variable and fixed costs, excluding volume impact, by EUR 767 million, driven mainly by lower fibre and fixed costs. Those reductions more than offset the impact of lower sales volumes. In addition, by the end of the year of 2009 we achieved a reduction in working capital of EUR 607 million. Furthermore, we decreased our net debt by EUR 530 million, giving us a debt-to-equity ratio of 0.51, and had excellent liquidity, with EUR 877 million in cash and cash equivalents at the year-end and good access to new funding. We raised over EUR 600 million of new debt without covenants from various markets and sources.

Going forward, our excellent liquidity and access to debt markets gives us the financial flexibility to make acquisitions, invest in our strategic growth opportunities and continue to restructure our business as required.

Markus Rauramo | Chief Financial Officer

Consolidated Income Statement

EUR million	2009	2008	2007
	Year Ended 31 December		
Continuing Operations			
Sales	**8 945.1**	**11 028.8**	**11 848.5**
Other operating income	172.8	120.2	88.4
Changes in inventories of finished goods and work in progress	-200.5	-78.1	81.0
Change in net value of biological assets	-3.3	-18.2	7.5
Materials and services	-5 464.3	-6 815.7	-7 051.5
Freight and sales commissions	-833.6	-1 127.1	-1 133.9
Personnel expenses	-1 349.6	-1 669.1	-1 712.9
Other operating expenses	-833.1	-752.6	-761.9
Share of results in equity accounted investments	111.8	7.6	341.3
Depreciations, amortisation and impairment charges	-1 152.9	-1 422.4	-1 529.6
Operating (Loss) / Profit	**-607.6**	**-726.6**	**176.9**
Financial income	209.3	356.7	161.9
Financial expense	-488.5	-523.9	-318.6
(Loss) / Profit before Tax	**-886.8**	**-893.8**	**20.2**
Income tax	8.6	214.8	-7.4
Net (Loss) / Profit for the Year from Continuing Operations	**-878.2**	**-679.0**	**12.8**
Discontinued Operations: Profit / (Loss) after Tax for the Year	**-**	**4.3**	**-225.2**
Net Loss for the Year from Total Operations	**-878.2**	**-674.7**	**-212.4**
Attributable to:			
Equity holders of the Parent Company	-879.7	-673.4	-214.7
Non-controlling interests	1.5	-1.3	2.3
Net Loss for the Year	**-878.2**	**-674.7**	**-212.4**
Earnings per Share			
Basic & diluted (loss) per share, Total Operations, EUR	-1.12	-0.85	-0.27
Basic & diluted (loss) / earnings per share, Continuing Operations, EUR	-1.12	-0.86	0.01

This financial information has been extracted from the audited financial statements included in a separate document, Financial Performance 2009.

Consolidated Statement of Comprehensive Income

EUR million	Year Ended 31 December 2009	2008	2007
Net (Loss) for the Period	**-878.2**	**-674.7**	**-212.4**
Other Comprehensive Income			
Actuarial gains & losses on defined benefit pension plans	-20.4	-12.7	17.3
Asset revaluation on step acquisition	3.9	-	-
Available-for-Sale financial assets	180.3	-398.0	217.3
Currency and commodity hedges	224.1	-312.3	5.6
Share of other comprehensive income of equity accounted investments	-8.5	-9.4	5.1
Currency translation movements on equity net investments (CTA)	252.6	-328.3	-224.0
Currency translation movements on non-controlling interests	5.9	-5.5	4.6
Net investment hedges	0.7	1.3	53.7
Income tax relating to components of other comprehensive income	-65.0	88.8	168.7
Other Comprehensive Income, Net of Tax	**573.6**	**-976.1**	**248.3**
Total Comprehensive Income	**-304.6**	**-1 650.8**	**35.9**
Total Comprehensive Income Attributable to:			
Owners of the Parent	-312.0	-1 644.7	33.5
Non-controlling interests	7.4	-6.1	2.4
	-304.6	**-1 650.8**	**35.9**

This financial information has been extracted from the audited financial statements included in a separate document, Financial Performance 2009.

Consolidated Statement of Financial Position

EUR million		2009	2008	2007
		As at 31 December		
Assets				
Fixed Assets and Non-Current Investments				
Goodwill	O	208.3	207.6	502.7
Other intangible fixed assets	O	71.4	77.5	159.1
Property, plant and equipment	O	4 700.2	5 413.7	6 476.7
		4 979.9	**5 698.8**	**7 138.5**
Biological assets	O	152.5	133.6	88.7
Emission rights	O	25.3	67.0	5.2
Equity accounted investments	O	1 481.3	1 042.5	1 154.5
Available-for-Sale: Interest-bearing	I	71.7	154.9	161.8
Available-for-Sale: Operative	O	778.5	954.3	1 260.8
Non-current loan receivables	I	159.6	130.3	126.5
Deferred tax assets	T	155.8	74.5	63.7
Other non-current assets	O	30.4	16.2	22.6
		7 835.0	**8 272.1**	**10 022.3**
Current Assets				
Inventories	O	1 281.6	1 693.6	1 992.6
Tax receivables	T	2.4	25.0	34.3
Short-term operative receivables	O	1 362.6	1 583.2	2 063.1
Interest-bearing receivables	I	221.2	251.1	227.8
Cash and cash equivalents	I	890.4	415.8	970.7
		3 758.2	**3 968.7**	**5 288.5**
Total Assets		**11 593.2**	**12 240.8**	**15 310.8**
Equity and Liabilities				
Equity Attributable to Parent Company Shareholders				
Share capital		1 342.2	1 342.2	1 342.2
Share Premium and Reserve Fund		76.6	2 276.4	2 276.4
Treasury shares		-10.2	-10.2	-10.2
Other comprehensive income		668.3	334.0	960.4
Cumulative translation adjustment		-194.6	-443.8	-115.6
Invested non-restricted equity fund		2 042.1	-	-
Retained earnings		2 079.6	2 768.8	3 355.1
Net (loss) for the period		-879.7	-673.4	-214.7
		5 124.3	**5 594.0**	**7 593.6**
Non-controlling interests		58.2	56.5	71.9
Total Equity		**5 182.5**	**5 650.5**	**7 665.5**
Non-Current Liabilities				
Post-employment benefit provisions	O	305.0	299.0	327.3
Other provisions	O	180.4	202.3	135.9
Deferred tax liabilities	T	364.4	277.5	582.0
Non-current debt	I	2 898.4	3 007.8	3 354.8
Other non-current operative liabilities	O	43.1	28.5	52.7
		3 791.3	**3 815.1**	**4 452.7**
Current Liabilities				
Current portion of non-current debt	I	814.8	437.4	513.1
Interest-bearing liabilities	I	210.1	587.7	482.2
Bank overdrafts	I	13.4	43.2	91.4
Current operative liabilities	O	1 473.0	1 602.1	1 971.3
Tax liabilities	T	108.1	104.8	134.6
		2 619.4	**2 775.2**	**3 192.6**
Total Equity and Liabilities		**11 593.2**	**12 240.8**	**15 310.8**

Items designated “O” comprise Operative Capital, Items designated “I” comprise Interest-bearing Net Liabilities, Items designated “T” comprise Net Tax Liabilities.
This financial information has been extracted from the audited financial statements included in a separate document, Financial Performance 2009.

Condensed Consolidated Statement of Cash Flows

EUR million	2009	2008	2007
	Year Ended 31 December		
Cash Flow from Operating Activities			
Operating (loss) / profit	-607.6	-714.7	249.9
Hedging result from OCI	233.4	-280.9	3.6
Adjustments for non-cash items	1 262.0	1 453.9	1 411.7
Change in net working capital	638.0	81.5	-330.9
Cash Flow Generated by Operations	**1 525.8**	**539.8**	**1 334.3**
Net financials items (paid) / received	-220.3	47.2	-322.9
Income taxes (paid) / received, net	-3.0	25.5	-111.6
Net Cash Provided by Operating Activities	**1 302.5**	**612.5**	**899.8**
Cash Flow from Investing Activities			
Acquisitions of subsidiaries	-8.4	-4.5	-71.4
Acquisitions of equity accounted investments	-128.5	-53.9	-91.6
Proceeds from sale of fixed assets and shares	98.0	230.3	415.6
Capital expenditure	-423.7	-706.6	-820.4
Payment of non-current receivables, net	-24.2	-16.2	17.8
Net Cash Used in Investing Activities	**-486.8**	**-550.9**	**-550.0**
Cash Flow from Financing Activities			
Proceeds from issue of new long-term debt	636.1	303.6	289.0
Long-term debt, payments	-411.3	-634.2	-799.5
Change in short-term borrowings	-359.9	4.0	1 145.4
Dividends and capital repayments paid	-157.7	-354.9	-354.9
Equity repayment and dividend to non-controlling interests	-7.7	-4.2	7.0
Options exercided and repurchase of own shares	-	-	-2.1
Net Cash Used in Financing Activities	**-300.5**	**-685.7**	**284.9**
Net Increase / (Decrease) in Cash and Cash Equivalents	**515.2**	**-624.1**	**634.7**
Cash and bank in acquired companies	4.4	-	0.3
Cash and bank in disposed companies	-0.1	-31.3	-110.8
Translation adjustment	-15.1	148.7	45.5
Net cash and cash equivalents at the beginning of period	372.6	879.3	309.6
Net Cash and Cash Equivalents at Period End	**877.0**	**372.6**	**879.3**
Cash and Cash Equivalents at Period End	**890.4**	**415.8**	**970.7**
Bank Overdrafts at Period End	**-13.4**	**-43.2**	**-91.4**
Net Cash and Cash Equivalents at Period End	**877.0**	**372.6**	**879.3**

This financial information has been extracted from the audited financial statements included in a separate document, Financial Performance 2009.

Key Figures

Continuing Operations	2009	2008
Sales, EUR million	8 945.1	11 028.8
Operating profit/loss excl. NRI and fair valuations[1], EUR million	320.5	388.4
Operating profit/loss (IFRS), EUR million	-607.6	-726.6
Profit before tax excl. NRI, EUR million	194.2	151.6
Loss before tax, EUR million	-886.8	-893.8
Net profit excl. NRI, EUR million	153.2	142.8
Net loss, EUR million	-878.2	-679.0
Capital expenditure, EUR million	-423.7	-704.7
Return on capital employed (ROCE), excl. NRI, %	3.9	3.4
ROCE, excl. NRI and fair valuations, %	3.9	4.1
Return on equity (ROE)[2], %	-16.2	-10.1
Debt/equity ratio[2]	0.51	0.56
Deliveries of paper and board, 1 000 tonnes	10 174	11 836
Deliveries of corrugated packaging, million m^2	966	1 071
Deliveries of wood products, 1 000 m^3	4 902	5 893
Average number of employees	28 696	33 815

Share Information

Continuing Operations	2009	2008
Earnings/share excl. NRI, EUR	0.19	0.18
Earnings/share, EUR	-1.12	-0.86
Cash earnings/share excl. NRI, EUR	0.94	0.99
Cash earnings/share, EUR	0.35	0.94
Total Operations		
Earnings/share excl. NRI, EUR	0.19	0.19
Earnings/share, EUR	-1.12	-0.85
Dividend and distribution/share, EUR	0.20[3]	0.20
Equity/share, EUR	6.50	7.09
Payout ratio, %	105[3]	105
Market capitalisation, 31 December, EUR billion	4.0	4.4

1) Fair valuations include synthetic options net of realised and open hedges, CO_2 emission rights, and valuations of biological assets mainly related to forest assets in equity accounted investments.

2) Total operations.

3) Board's proposal for distribution of funds.

NRI = Non-recurring items

Auditor's Report

To the Annual General Meeting of Stora Enso Oyj

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Stora Enso Oyj for the financial period 1.1. – 31.12.2009. The financial statements comprise of the consolidated income statement, statement of comprehensive income, balance sheet, cash flow statement, statement of changes in equity and notes to the consolidated financial statements, as well as the parent company's income statement, balance sheet, cash flow statement and notes to the financial statements.

The responsibility of the Board of Directors and the Chief Executive Officer

The Board of Directors and the Chief Executive Officer are responsible for the preparation of the financial statements and the report of the Board of Directors and for the fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the fair presentation of the financial statements and the report of the Board of Directors in accordance with laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Chief Executive Officer shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's responsibility

Our responsibility is to perform an audit in accordance with good auditing practice in Finland, and to express an opinion on the parent company's financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. Good auditing practice requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements and the report of the Board of Directors are free from material misstatement and whether the members of the Board of Directors of the parent company and the Chief Executive Officer have complied with the Limited Liability Companies Act.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

The audit was performed in accordance with good auditing practice in Finland. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the company's financial statements and the report of the Board of Directors

In our opinion, the financial statements together with the consolidated financial statements included therein, and the report of the Board of Directors give a true and fair view of the financial performance and financial position of the company in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Other opinions

The consolidated financial statements and the parent company's financial statements can be adopted and the members of the Board of Directors and the Chief Executive Officer can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the treatment of distributable funds is in compliance with the Limited Liability Companies Act.

Helsinki, 24 February 2010

Deloitte & Touche Oy
Authorized Public Audit Firm

Mikael Paul
APA

This Auditor's Report is a copy of the Auditor's Report included in a separate document, Financial Performance 2009.

Information for shareholders

Annual General Meeting (AGM)

Stora Enso Oyj's AGM will be held at 16.00 (Finnish time) on Wednesday 31 March 2010 at the Marina Congress Center, Katajanokanlaituri 6, Helsinki, Finland.

Nominee-registered shareholders wishing to attend and vote at the AGM must be temporarily registered in the Company's share register on the record date, 19 March 2010. Instructions for submitting notice of attendance will be given in the invitation to the AGM, which can be consulted on the Company's website at www.storaenso.com/investors.

AGM and capital distribution in 2010

19 March	Record date for AGM
31 March	Annual General Meeting (AGM)
1 April	Ex-date
7 April	Record date for capital distribution
20 April	Capital distribution payment effective

Distribution of funds

The Board of Directors proposes to the AGM that EUR 0.20 per share be distributed to the shareholders from the invested non-restricted equity fund of the parent company for the fiscal year ending 31 December 2009. The distribution of funds payable on shares registered with Euroclear Sweden will be forwarded by Euroclear Sweden AB and paid in Swedish krona. The funds payable to ADR holders will be forwarded by Deutsche Bank Trust Company Americas (DBTCA) and paid in US dollars.

Publication dates for 2010

4 February	Financial results for 2009
25 February	Annual Report 2009
22 April	Interim Review for January–March
22 July	Interim Review for January–June
27 October	Interim Review for January–September

Distribution of financial information

Stora Enso's **Annual Report** is comprised of three separate reports: Stora Enso 2009, Financial Performance 2009 and Sustainability Performance 2009. Stora Enso 2009 is published in English, Finnish and Swedish, and distributed to shareholders in Finland and Sweden who have requested a copy, as well as to all registered ADR holders. Stora Enso 2009 is also downloadable as a PDF file from the Company's website.

Financial Performance is published in English and downloadable as a PDF file from the Company's website. A Finnish translation of the report can be found on the Company's website.

Sustainability Performance is published in English and downloadable as a PDF file from the Company's website.

Printed **Interim Reviews** (in English, Finnish and Swedish) are distributed to shareholders in Finland and Sweden who have requested a copy. ADR holders in North America can request printed copies from DBTCA. Interim Reviews are published in English, Finnish and Swedish on the Company's website, from where they can be downloaded as PDF files.

Mailing lists for financial information

Please notify any change of address or request for addition to or removal from mailing lists as follows:

- Finnish shareholders:
  by e-mail corporate.communications@storaenso.com,
  by mail Stora Enso Oyj, Financial Communications,
  P.O. Box 309, FI-00101 Helsinki or by tel. +358 2046 131.
- Swedish shareholders:
  by e-mail storaenso@strd.se, by fax +46 8 449 88 10 or
  by mail Stora Enso, SE-120 88 Stockholm.
- Registered ADR holders should contact DBTCA. Beneficial owners of Stora Enso ADRs should contact their broker.
- Other stakeholders: see details for Finnish shareholders.

Information for holders of American Depositary Receipts (ADRs)

The Stora Enso dividend reinvestment and direct purchase plan is administered by Deutsche Bank Trust Company Americas (DBTCA). The plan makes it easier for existing ADR holders and first-time purchasers of Stora Enso ADRs to increase their investment by reinvesting cash distribution or by making additional cash investments. The plan is intended for US residents only. Further information on the Stora Enso ADR programme is available at www.adr.db.com.

Contact information for Stora Enso ADR holders

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c/o American Stock Transfer & Trust Company
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Hard talk about Global Responsibility

Using paper = cutting down rainforests. True or False?

This and other interesting topics discussed at our new interactive website available online in April 2010. Take a look at how we see our role as a globally responsible company, learn to build a tree plantation and test your habits as a sustainable consumer.

www.storaenso.com/globalresponsibility

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Photography: Tina Axelsson, Jonathan Andrew, Scala Photography, Jari Salonen, Lukkien, ANP Photo, Getty Images and Stora Enso image bank
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Text stock: LumiSilk 150 g/m², Stora Enso, Oulu Mill (ISO 14001 certified)

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Sustainability Performance 2009

Describes Stora Enso’s sustainability activities as they relate to its mills, stakeholders, wood and fibre sourcing, environmental practices, climate action, social responsibility and product responsibility. This report follows the Global Reporting Initiative’s (GRI) guidelines.

Financial Performance 2009

Contains in-depth information about Stora Enso’s financial performance, corporate governance and capital markets, including consolidated financial statements and notes, and the report of the Board of Directors.

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