

TO THE BOARD OF DIRECTORS OF STORA ENSO OYJ

REPORT ON INVESTIGATIONS ON CERTAIN ACCOUNTING ISSUES

IN HELSINKI, 4 OCTOBER 2013

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1. Introduction

The Board of Directors (the "Board") of Stora Enso Oyj (the "Company") has taken note of the fact that a public discussion regarding certain alleged incorrect accounting practices and wrongdoings of the Company has been ongoing both in Finland and in Sweden for some time. The discussion concerns certain complaints and allegations that for several years already have been subject to review and action within the Company.

For the eventuality that the public discussion concerning the matter continues, and since the information in the public discussion has been incomplete and/or incorrect in material respects, we understand that the Board has decided to maintain a readiness to address the relevant issues publicly by providing more factual information about the matters concerned and the action taken by the Company at various instances in respect of them.

To this end, the Board has commissioned the undersigned external counsel, Mr. Tomas Lindholm, attorney at law, Lindholm Wallgren, Attorneys Ltd. and Ms. Nina Isokorpi and Mr. Vesa Rasinaho, attorneys at law, Roschier, Attorneys Ltd. to make a comprehensive report to the Board (the/this "Report") summarizing the relevant matters, investigations, conclusions and remedial action taken by the Company in relation to the complaints and allegations in question.

The subject matter of this Report concerns facts and events that have taken place during the years 1998–2011. Various alleged accounting errors or corporate irregularities, wrongdoings or misbehavior have at different instances during the period between November 2008 and January 2012 been reported to the Company or to individual members of its senior management by an individual who worked at the Company's accounting department from 2001 to 2010 (below the "Informant"). At each such instance, the Company has undertaken procedures to investigate the complaints and allegations (each an "Investigation", together the "Investigations") with a view to determining whether, and to what extent, the allegations made by the Informant have been founded and, if in the affirmative, what the Company should do to rectify the situation.

All the Investigations have been carried out under the ultimate supervision of the Board and its Financial and Audit Committee ("FAC") in consultation with the Company's external auditors. The responsibility for carrying out the Investigations in practice has rested with the Company's Legal Service and Internal Audit functions that have been assisted by external legal counsel and financial experts, as described in more detail below in the Report. As also described in more detail below, the Finnish Financial Supervision ("FIVA" or "FSA") has been continuously informed of the Investigations and their outcome.

This Report is based on the reports contemporaneously issued in connection with the Investigations, as well as on materials underlying or otherwise relating to such reports. Where appropriate and illustrative we have quoted such reports or materials. We have intended to substantiate the issues and findings as far as possible by describing them

anew in sufficient detail in this Report. However, since the Report may be made public in whole or in part, we have also in preparing the Report, due to privacy and confidentiality considerations, refrained from referring to matters relating to private individuals or constituting business secrets unless in our view necessary for the understanding of the relevant circumstances.

2. The First Investigation (November 2008 – February 2009)

In the fall of 2008 the Informant under the Company's anonymous complaint reporting procedure made complaints over a large number of accounting issues in Stora Enso which he considered to be in violation of the applicable generally accepted accounting principles ("GAAP") and the law. The complaint concerned the accounting treatment of various transactions that had taken place during the period 1998 to 2007, and as a result of which the Informant considered that the equity of the parent company Stora Enso Oyj (also the "Parent Company" or "SEO") had been overstated in the SEO parent company accounts (the "Parent Company Accounts") by some BEUR 2.7.

The Company's Internal Audit on 5 November 2008 initiated a preliminary review of the matters brought up in the Informant's complaint. By an e-mail of 27 November 2008 the Head of Internal Audit informed the Chairman of the FAC of the preliminary results of the review and recommended that the matter be investigated and analyzed in more detail. The Internal Audit prepared a memorandum, dated 27 November 2008 (the "Internal Audit Report"), on their preliminary findings and recommendations and submitted it to the Chairman of the FAC, the Chairman of the Board, the CEO, the CFO, the General Counsel and the Company's external auditor on 29 November 2008.

On 1 December 2008 the General Counsel informed the Chairman of the FAC and the Chairman of the Board of the next phase of the investigation, including the retaining of external legal counsel to undertake independent investigation with the Company's Legal function supervising the process.

On 2 December 2008 the Company's General Counsel assigned Roschier, Attorneys Ltd. ("Roschier") with Mr. Tomas Lindholm as responsible partner ("External Counsel") to examine and review the various issues raised by the Informant and, following such examination and review (the "Review"), to issue a report of relevant findings and conclusions to the Board. Where the term External Counsel is used in this Report, it refers to the external counsel referred to above and/or to such other Finnish counsel that has participated in the Investigations as referred to in connection with each separate Investigation.

For purposes of conducting the Review, members of the senior management of the Company, including the CEO, the CFO, the CAO, the General Counsel and the Head of Internal Audit were interviewed. To establish the relevant facts also the Informant and a number of other employees of the Company and its subsidiaries who held or had held positions relevant to the issues concerned were interviewed.

In conducting the Review External Counsel worked closely with the Company's external auditors (Deloitte) appointed at the Company's AGM in the spring of 2008. For purposes of the Review, the auditors provided information and views on accounting matters and the generally accepted accounting principles ("GAAP")

(including impairment and valuation matters) both in Finland and in other countries implicated.

External Counsel also sought advice on US law aspects on the matters under investigation from Debevoise & Plimpton LLP ("Devoise & Plimpton"), a highly reputable US law firm in the field, to determine whether any of the conclusions and recommendations were affected by US law.

In his complaints to the Company the Informant originally referred to six (6) separate internal transactions, or series of transactions (each an "Issue"), where, in the Informant's view, the relevant transactions had been entered into the books of various companies in the Stora Enso group (the "Group") in violation of the applicable GAAP. Ultimately, according to the Informant, this resulted *inter alia* in a substantial overstatement of the value of the shares of the subsidiaries in the Parent Company Accounts.

Some time into the Review, the Informant submitted further written communication alleging that the incorrect accounting treatment formed part of a premeditated plan intended to improperly inflate the amount of the distributable reserves of SEO, so as to create a false and overstated perception of the Company's ability to pay future dividends. This further allegation was then examined as a seventh (7th) Issue in the Review. These seven Issues are described in Sections 2.1. to 2.8 below.

2.1 The original six Issues

The original six Issues brought up by the Informant and the relevant findings made in the First Investigation regarding such Issues are presented in the following Sections 2.2 to 2.7.

2.2 Issue 1: The valuation of SEO's subsidiaries Stora Kopparbergs Bergslags AB ("SKBAB") and Stora Enso AB ("SEAB") and the booking of dividends paid by these companies in the Parent Company Accounts

Following the combination of SKBAB and Enso Oyj in 1998, for the financial years 1999 to 2002, SKBAB distributed dividends to SEO significantly in excess (by MEUR 2,687) of the profits generated by it during the same period. SKBAB, in other words, distributed a significant amount of its retained earnings generated before the combination, i.e. before the acquisition of SKBAB by SEO. In a restructuring made in 2003 SEAB became the main Swedish subsidiary of SEO instead of SKBAB. SEAB had also paid significant dividends to SEO.

The Informant questioned this Issue in the following respects:

- a) whether the dividends distributed by SKBAB in the period had been booked in the accounts of SEO in accordance with Finnish GAAP taking into account that a significant part of the dividends were distributed from SKBAB's retained earnings accrued prior to the acquisition of SKBAB by SEO and, according to the Informant, should have been booked as a repayment of capital;

- b) whether the distributions had been correctly booked by SKBAB under Swedish GAAP; and
- c) whether impairments on the SKBAB/SEAB values should have been made in the books of SEO as a result of the dividend payments made by the companies.

In their Report of 3 February 2009 to the Board, External Counsel presented the facts of and the conclusions made on this issue as follows:

"3.1.1 Facts

SKBAB became SEO's subsidiary in 1998 as a result of a public tender offer process. The SKBAB shares were entered in the Group Accounts prepared under the International Accounting Standards ("IAS") by using the pooling of interests method. The value used in the accounting, MEUR 4,787, apparently represented the market value of SKBAB at that time. We have not been able to confirm the exact market capitalization of SKBAB at the time of its combination with SEO but this assumption is supported e.g. by the Due Diligence report by [name of entity omitted] of May 1998 in which the SKBAB shares are valued at MSEK 43,022 (i.e. BEUR 4.7 at the exchange rate 9.0826). ---

The equity of SKBAB at the end of 1998 was MSEK 28,557, i.e. approx. MEUR 3,144 at the exchange rate 9.0826. Also this would seem to indicate that the value MEUR 4,787 was the market value (as opposed to equity value) of SKBAB at the time of the combination.

During the years 2000 to 2003 SKBAB paid dividends to SEO in the amount of MEUR 4,787:

[table omitted here]

While SKBAB was an independent group, it had issued bonds and had its own finance platforms in Singapore, Amsterdam and Stockholm. As part of the post-merger financial transformation, the merged group was to have a single treasury function operating out of SEO. Thus, SKBAB bonds were repaid, new ones issued by SEO and equity transferred over to SEO to finance the single treasury. All the transfers were treated as dividend income in SEO and booked as retained earnings with no adjustment made to the carrying value of the SKBAB shares, this, according to the Informant, despite the fact that much of the value represented by the market valuation in December 1998 has been paid over. [Footnote 4: "Internal Audit Report, 2007 page 4."]

According to the Informant, the profit generated by SKBAB's group during the same period (financial years 1999 to 2002) amounted to approximately BEUR 2.1. Further, according to the Informant, this includes the profit on the realization of the Swedish energy assets [Footnote 5: "Informant's e-mail of 3 January 2008."] in the amount of MEUR 500. This would mean that SKBAB distributed an amount of BEUR 2.7 of retained earnings generated before the acquisition of SKBAB by SEO. If the profit generated on the realization of the energy asset is added, the distributed pre-acquisition profit would amount to BEUR 3.2.

Deloitte has not been able to agree all figures presented by the Informant to the figures of the Group's reporting systems (Enterprise and Hyperion) or the statutory accounts of SKBAB and SEAB. The following table has been prepared by Deloitte and is based, as regards the earnings, on these reporting systems

and indicates that "pre-acquisition earnings" in the amount of BEUR 2.7 have been distributed to SEO.

[table omitted here]

Following the restructuring described under Issue 4 below, SEO's holding in SKBAB was replaced by separate direct holdings in SEAB, SEB, SE UK and several smaller holdings. The shares in SEAB are still in the 2007 Parent Company Accounts of SEO carried at the value of MEUR 4,787, i.e. the value originally allocated to SKBAB. It is our understanding that, prior to the end of 2008, SEO had made no formal impairment testing on the SKBAB or SEAB shares.

The Informant has argued that the difference between the amount distributed by SKBAB and the profit generated by it after its acquisition by SEO, which has been booked as income in the books of SEO, in reality constituted a "hidden revaluation" of SKBAB and thus should have been booked in SEO's revaluation reserve instead of as profit. Under both the old Finnish Companies Act (734/1978, the "Old FCA") in force until September 2006 and the current Finnish Companies Act (624/2006, as amended, the "Current FCA") in force from September 2006, a revaluation reserve constitutes non-distributable equity.

3.1.2 Applicable rules /principles

3.1.2.1 Booking of dividends

According to Deloitte, Finnish GAAP does not recognize any distinction between dividends paid out of "pre-acquisition profits" and profits earned during the time the distributing entity has been owned by the recipient. Thus, under Finnish GAAP, all dividends received by a Finnish legal entity are treated as dividends, i.e. income in the books of the recipient. This applies to the entire period under review. Under Swedish GAAP, such dividends shall be booked as dividends in the accounts of the distributing entity.

3.1.2.2 General accounting principles under the Finnish Accounting Act

The Finnish Accounting Act (1336/1997, as amended, the "FAA") includes a "prudence concept". Chapter 3, Section 3 of the FAA lists the general accounting principles applicable to the preparation of accounts and the report on operations under Finnish GAAP. The principles include: [Footnote 7: "Unofficial translation."]

- "1) the assumption of continuity of operations of the accountable entity;
- 2) consistency in the applicability of the preparation principles and methods over different accounting periods;
- 2a) paying attention to the factual content of transactions and not merely on their legal form (substance over form) (Introduced by Act 1304/31.12.2004 in force from 31 December 2004);
- 3) prudence independent from the result of the accounting period;
- 4) basing the opening balance sheet on the previous period's closing balance sheet;

- 5) *the inclusion of yield and costs belonging to the accounting period irrespective of the date of imbursement of payments based on them;*
- 6) *separate valuation of all assets and other items entered into the balance sheet."*

The prudence principle as set out in item 3) above especially requires that in the accounts and the report on operations [Footnote 8: "The reference to report on operations was included in the provision only in 2004 (Act 1304/31.12.2004). The amendment is not relevant for the purposes of this Report."] the following are included:

- (i) *only the profits realized during the accounting period; and*
- (ii) *all depreciations and impairments on assets and the increase in value of debts as well as all liabilities and possible losses relating to the most recent or earlier accounting periods, liabilities and possible losses that can be expected, even though such would be known only after the end of the accounting period.*

The principles listed above may only be deviated from for a specific reason, unless the deviation is based on law or other regulation or an order based on law. In case of deviation, the grounds for and the effects of the deviation on the result and financial standing of the accountable entity shall be included in the notes to the accounts.

The "substance over form" principle was introduced into the FAA at the end of 2004. However, the Finnish Accounting Board has stated that the principle was deemed to be part of good accounting practice already from the mid 1990's. The other accounting principles listed have remained unchanged since 1997.

3.1.2.3 Provisions of Finnish accounting legislation on impairments

Under Finnish GAAP/the FAA, shares in subsidiaries are carried at cost less impairment. The only relevant specific provision governing impairments is contained in Chapter 5, Section 13 of the FAA. According to this provision, if the income to be generated in the future by an asset or investment belonging to the non-current assets is permanently smaller than its undepreciated acquisition cost, "the difference must be booked as an expense as an impairment of value". [Footnote 9: "In Finnish: "erotus on kirjattava arvonalennuksena kuluksi"."] This provision (the "impairment provision") has been in force and unchanged since 1997 and, therefore, is applicable for the entire period under review. The provision is based on Article 35(1)(c)(bb) of the EC Accounting Directive (78/660/EEC).

In addition to the impairment provision concerning impairments, the general principles set out in the FAA discussed above are also relevant for impairment considerations.

According to the preparatory works of the FAA (Government Bill 173/1997), in the interpretation of the provision, the current value of the income stream generated by the asset should be taken into account if the asset generates income over a long period of time. According to the preparatory works, if the asset in question is a fixed asset, the acquisition cost does not have to be deducted as an expense, even though the likely transfer price of the asset, if sold separately, would be smaller than the undepreciated acquisition cost, if the income generated by it in the future corresponds at least to the undepreciated acquisition cost. According to Deloitte, this reference to a future income stream generated by the asset in question has been generally interpreted to mean that, when assets are tested for impairments, the

preferred method is to calculate the discounted current value of the cash flows expected to be generated by the asset. However, they also note that this is only one method of valuation.

According to the General Guidelines on Depreciations According to Plan of the Finnish Accounting Board (issued 16 October 2007, the "Guidelines"), the expected income from subsidiary shares and similar investments is not generally limited to the dividends accruing from time to time and the capital gain realized on the transfer of such investments. It is typical for shares belonging to non-current assets that, as part of the entire non-current assets of the company, they lack an independently verifiable (yield) value. The income expectations connected to such assets are included in the aggregate value of all non-current assets of the Company or the value of the whole Company. This indicates that the discounted cash flow calculation used in impairment testing of subsidiary shares should be carried out on the basis of the whole cash flow generated by the subsidiary and not only the dividends to the parent company.

There is no provision in the FAA or the Guidelines explicitly stating that an impairment should be made if the subsidiary in question e.g. decreases its invested equity through transferring assets to its parent entity or distributes retained earnings acquired before the parent company acquired the subsidiary in question. According to [the external auditor], Finnish GAAP does not require annual impairment tests over the company, but rather, assets are tested for impairment when the company (its Board of Directors) deems there to be specific reasons to expect that the value of the assets may have decreased. Examples of situations where such specific reasons may exist are a) the consolidated accounts show less equity than the separate parent company accounts, b) the subsidiary has been loss-making or c) the equity of the subsidiary is less than its acquisition cost on the books of the parent company.

If it subsequently becomes evident that an impairment of assets made under Chapter 5, Section 13 of the FAA was unfounded, the expense booking shall be corrected (reversed) in accordance with Chapter 5, Section 16 of the FAA.

3.1.2.4 Revaluations and the revaluation reserve in Finland

Revaluations of assets are governed by Chapter 5, Section 17 of the FAA. According to this provision, if the value of a land or water area (real estate) or security (after 2004 excluding financial instruments valued on a mark-to-market basis) at the end of the accounting period is permanently and significantly higher than the acquisition cost, a revaluation corresponding at the most to the difference between the likely sales price and the acquisition cost of the asset may be booked in the accounts. Consistency and particular prudence shall be followed in such a booking. An amount corresponding to the revaluation shall be booked in the revaluation reserve being part of the restricted equity of the entity. If the revaluation later turns out to be unfounded, it shall be revoked. If the entity subject to revaluation owns shares in its parent entity, such shares shall be deemed to have no value for the purposes of the revaluation.

3.1.3 Conclusion on Issue 1

Deloitte has reviewed the dividends booked in the statutory accounts of SEO as paid from SKBAB and SEAB to SEO during 1999 to 2007. According to Deloitte, "[i]n each period the dividend has been declared as "dividend" under Swedish law and hence appropriately treated as dividend under Finnish GAAP and Finnish legislation". Deloitte further notes that they have "also read the group auditors' reports ([previous external auditors] and [previous external auditors] together auditors for the years 1999 - 2001 and [previous external auditors] alone thereafter) of Stora Enso Oyj for each year between 1999 - 2007 and which did not contain any qualifications. All auditors' reports include the

standard audit opinion in accordance with Finnish practice for the periods in question; "The parent company's financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations and give a true and a fair view of the parent company's result of operations and financial position. The parent company's financial statements can be adopted and the members of the Board of Directors and the Chief Executive Officer of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the distributable funds is in compliance with the Finnish Companies' Act." Deloitte has further confirmed that the audit reports of the Swedish companies, SKBAB and SEAB, include a similar statement noting that the proposed distributions are legal.

Finnish GAAP does not include any provision explicitly stating when or under what circumstances assets should be tested for impairment. Neither are there any specific provisions providing for automatic impairment of subsidiary shares in situations where the subsidiary distributes profits that have been generated before the subsidiary was acquired by the parent. The prevailing accounting practice in accordance with Finnish GAAP does not seem to require annual impairment testing, but instead, companies should test assets for impairments when there are indications of possible impairment triggers, i.e. events that could reasonably be expected to give rise to an impairment. In the case of SEO, SKBAB and SEAB (that in 2003 acquired SKBAB's Swedish Subsidiaries excluding the forest assets), it seems that there have been several indicators of possible impairment triggers over the years, such as the fact that SEO's consolidated equity has been lower than the Parent Company equity, that the equity of SKBAB has been lower than its value in the books of SEO, that SKBAB has distributed substantial amounts of dividends in excess of its post-acquisition profits and that significant divestments and restructurings have been carried out at SKBAB. Therefore, we are inclined to conclude that SEO should have tested the value of the shares in SKBAB and SEAB for impairments during some of the years under review. This would, in particular, seem to apply to 2003, which was the year during which many potential impairment trigger events occurred.

While we are inclined to conclude that impairment testing of the Parent Company assets should probably have been made during earlier years and, in particular in 2003, this would not, as such, imply that there would actually have been a need to make any impairments following such testing. In order to determine whether and to what extent there would actually have been a need to make impairments during earlier years we have asked the Company to endeavour to establish in arrears whether such a need actually existed, using the generally accepted methodology that it has used for impairment testing in 2008 or should have used during earlier years. The outcome of such retrospective analysis is described in Section 5.3 below. With reference to this analysis, there seem to be good reasons to argue that no impairments in the Parent Company Accounts would have been required during any of the years covered by the Review had impairment testing been properly made.

As regards the Informant's alternative allegation, there is, in our view, no basis to conclude that the distribution of dividends from SKBAB to SEO should be deemed to constitute a revaluation of SKBAB. The value of SKBAB cannot be deemed to have been adjusted upwards as a result of such distribution, but has remained at the acquisition cost as provided in Chapter 5, Section 17 of the FAA. Thus, the sole open question with regard to Issue 1 would be whether the book value of SKBAB and SEAB in the books of SEO was justified or whether the value should have been impaired."

2.3 Issue 2: Dividend distributions from SKBAB and SEAB to SEO

The Informant questioned whether SKBAB's and SEAB's financial position enabled them to distribute the significant dividend amounts referred to under Issue 1.

The Informant seemed specifically to question whether the prudence rule under the Swedish Companies Act, which stipulates that consideration shall be given to the financial position of any subsidiaries of a company that intends to distribute assets, had been adhered to.

In their Report of 3 February 2009 to the Board, External Counsel presented the facts of and the conclusions made on this Issue as follows:

"3.2.1 Facts

The Internal Audit Report raises the question of whether SKBAB's and SEAB's financial position allowed them to distribute dividends illustrated under Section 3.1.1 above. We understand that the question specifically concerns whether the prudence rule under the current Swedish Companies Act (Chapter 17, Section 3, Paragraph 2-3) and the earlier Swedish Companies Act (Chapter 12, Section 2) has been adhered to.

As discussed under Section 3.1.1, SKBAB distributed dividends to SEO in the amount of MEUR 4,787 from the financial years 1999 to 2002.

In the period under review, SEAB has paid dividends to the Parent Company in the amount of MEUR 1,635 for the financial years 2005 to 2007. The Company's earnings since 2003 to 2007 amount to MEUR 1,941 (MEUR 2,556 less the IAS 41 adjustment MEUR 615 in 2003, see table "SKBAB/SEAB's distributable earnings/reserves" in Section 3.1.1 and Appendix 3 to Internal Audit Report). The company has also had access to funding not only for its day to day operations but also for significant capital investments, for example, since 2005 the following capital investments have been made to Hylte Boiler rebuild, Kvarnsveden New Boiler, Kvarnsveden PM 12, Skoghall Energy 2005 Project and Fors rebuild boiler and BM2 improvement [Footnote 11: "SEO Internal Review Report 15 Dec 2008, slide 17."].

In addition to the SEB equity injections and repayments discussed under Issue 3, the Informant has alleged that similar dubious transactions have been made between Stora Enso Fine Paper AB and SKBAB, on the one hand and between Papyrus AB and SKBAB on the other hand. Such transactions are not discussed in the Internal Audit Memorandum and the information available to us on them originates from the Informant. According to the Informant, the costs of SKBAB's investment in the two companies and the equity of these companies matched until 2000. In 2000 BSEK 4.1 (approx. MEUR 464) and MSEK 470 (approx. MEUR 53) of their capital, respectively, were transferred to SKBAB that booked the funds as dividends, alleged for the purpose of such equity to be available for further transfer to SEO.

3.2.2 Applicable rules/principles

The Swedish prudence rule stipulates that consideration shall be given to the total financial position of all subsidiaries, i.e. the group, of a company that intends to distribute assets. Until 2005 there was a requirement to determine the distributable equity on a consolidated basis. Since 2006 the prudence rule means that, as a rule of thumb, a parent company should not distribute assets

to a wider extent than would have been possible had the group's entire business been part of the parent company itself. The guidance in the law itself states that "[w]here the company is a parent company, consideration shall also be given to the demands with respect to the group's equity which are imposed by the nature, scope and risks associated with the group's operations as well as the group's need to strengthen its balance sheet, liquidity, and financial position in general."

3.2.3 Conclusion on Issue 2

The distributions from SKBAB and, after 2003, from SEAB, were based on the confirmed and audited balance sheets of the companies as required by the Swedish corporate legislation in effect at the relevant times and were accounted as dividends in the books of SKBAB/SEAB. Therefore the payments made constitute dividend distributions under Swedish law. We have not received information on their distributable reserves on a consolidated basis. However, with respect to the Swedish prudence rule, the fact that SKBAB/SEAB have continued to conduct their business without any indication or threat of insolvency or other financial difficulties is a good indication, albeit in retrospect, that the distributions which took place several years before present were not made in breach of the prudence rule. This is also supported by the fact that SKBAB's auditors in their auditor statement confirmed that the distributions were lawfully made.

However, as discussed below (in connection with Issue 3), we cannot exclude the possibility that certain capital repayments made by SKBAB's subsidiary SEB should have been booked as a reduction of acquisition cost of shares rather than as profit. If such reclassification should have been made, the distributable assets shown in the balance sheet of SKBAB would have been reduced correspondingly. However, based on the information available regarding the amount of distributable assets in SKBAB (see table in Section 3.2.1), it seems that even if such reclassification was made, the distributable assets of SKBAB would still have remained positive with some margin. This means that the distributions made by SKBAB would not constitute an unlawful distribution under Swedish law even if such reclassification was made. Due to lack of further information, we cannot conclude whether the alleged capital repayments from Papyrus AB and Stora Enso Fine Paper AB discussed should or could be reclassified as repayment of capital instead of dividends. Their amount, in total approx. MEUR 520 would still fit into the headroom for distributable assets of SKBAB (in 2000 approx. MEUR 4,275 less dividends in the amount of MEUR 566, i.e. approx. BEUR 3.7), assuming that SKBAB's distributable reserves on a consolidated basis were sufficient and that SKBAB's book valuations otherwise were in order."

2.4 Issue 3: Equity injections and dividends between SKBAB and Stora Enso Beteiligungen GmbH ("SEB")

During the years 2000-2002 SKBAB, on the one hand, made certain capital injections (in the aggregate amount of MEUR 630) into SEB. SEB, on the other hand, distributed profits and made a repayment to SKBAB from its capital reserve (*Kapitalrücklage*) in the aggregate amount of MEUR 1,787, of which MEUR 400 was from the capital reserve. Both the distribution of profits and the repayment from the capital reserve were booked as dividends in the books of SKBAB.

The Informant alleged that this created an improper "money-go-round" which resulted in groundless inflation of the equity of SKBAB.

In their Report of 3 February 2009 to the Board, External Counsel presented the facts of and the conclusions made on this Issue as follows:

"3.3.1 Facts

During the years 2000 to 2002 SKBAB made two capital injections in SEB. An injection of MEUR 380 was made on 5 July 2001 and an injection of MEUR 250 on 12 December 2002. In the same period SEB distributed to SKBAB profits in the amount of MEUR 562 in 2000, MEUR 511 in 2001 and MEUR 395 in 2002. Simultaneously with the dividend distribution in 2002, SEB distributed to SKBAB an amount of MEUR 400 from its capital reserve (Kapitalrücklage). Both the distribution of profits and the distribution from the capital reserve were booked as dividends in the books of SKBAB. The following table describes the equity movements.

[table omitted here]

The underlying rationale for the transactions described above has been explained as follows by representatives of the Company:

The capital contribution of MEUR 380 in 2001 was made in order for SEB to repay its loan to Stora Enso Publication Papers Oy ("SEPP"). We understand that there was a tax risk related to this loan and in order to eliminate such risk the loan was repaid. Further, in order to avoid a conflict with the German thin capitalization rules, the contribution was to be repaid only after the year end 2001 as the equity as of 31 December 2001 was decisive for the determination of the thin-cap threshold for 2002. The repayment (MEUR 400) took place in June 2002. However, due to a gap identified in the calculation of the German thin-cap safe haven a capital injection in the amount of EUR 250 was made by SKBAB to SEB on 12 December 2002. Thus, effectively, of the MEUR 380 injected in 2001, MEUR 150 was returned to SKBAB in 2002.

The entire capital repayment of MEUR 400 in 2002 was booked by SKBAB as a dividend in its 2002 books (instead of having been booked to reduce the investment). As a result, the equity (distributable assets) of SKBAB in the company's statutory accounts was increased by the same amount. As these capital movements were eliminated when preparing consolidated accounts, there was no impact of this in the Group Accounts.

3.3.2 Applicable rules/principles

As regards Germany, we understand that no concerns have been raised with respect to the accounting treatment of the equity movements, including the booking of the repayment of capital in the amount of MEUR 400 as reducing the SEB's capital reserve. Deloitte has agreed the figures provided under 3.3.1 above to the SEB statutory accounts.

As regards Sweden, SKBAB prepared its 2002 annual report based on the Annual Report Act and the Swedish Accounting Standards Board pronouncements. As no specific guidance was issued regarding revenue transactions in these standards at the time, the common practice was to seek guidance in the standards issued by Redovisningsrådet (Swedish Financial Accounting Standards Council). RR11 (Intäkter, Redovisningsrådet/October 1999) principles applied in 2002 when the capital repayments took place. Para 29-32 of RR11 read as follows [Footnote 13: "Unofficial translation. The original Swedish text reads:" [translation omitted here]]:

"(29) Consideration in the form of interest, royalties and dividends arising from the use by others of entity assets shall be recognized on the bases set out in paragraph 30 when

- a) *it is probable that the economic benefits associated with the transaction will flow to the entity; and*
- b) *the amount of the revenue can be measured reliably.*

(30) *Revenue shall be recognized on the following bases:*

- a) *interest shall be recognized using the interest rate that gives a steady yield on the asset in question;*
- b) *royalties shall be recognized on an accrual basis in accordance with the substance of the relevant agreement; and*
- c) *dividends shall be recognized when the shareholder's right to receive payment is established.*

(31) ...

(32) *When unpaid interest has accrued before the acquisition of an interest-bearing investment, the subsequent receipt of interest is allocated between pre-acquisition and post-acquisition periods; only the post-acquisition portion is recognized as revenue. When dividends on equity securities are declared from pre-acquisition net income, those dividends are deducted from the cost of the securities. If it is difficult to make an allocation on other than an arbitrary basis, dividends are recognized as revenue if it is not clear that the dividends represent a recovery of part of the acquisition cost of the securities (emphasis added)".*

3.3.3 Conclusion on Issue 3

The main question here is whether, in 2002, payments that have been made and booked by a German GmbH as capital repayments to its Swedish owner can be booked as dividends by the Swedish owner company.

According to Deloitte, it has historically in Sweden been common practice to record capital repayments as dividends. Deloitte further notes that such payments have also been treated as dividends for the purposes of Swedish taxation. This conclusion is also included in the SEO Internal Review Report, which notes that "under Swedish tax law returns of capital from subsidiaries are always treated as dividend income and as a consequence tend to be accounted for as dividend income in statutory financial statements as well." According to Deloitte "the treatment is irrespective of whether and how the amounts are treated in the distributing entity", "e.g. if a transaction was treated as a capital repayment in the German legal accounts it is likely that under Swedish legislation this transaction will be treated as a dividend in the receiving Swedish entity" [Footnote 14: "SEO Internal Review Report 15 Dec 2008, slide 20."]. Deloitte has further stated that "the interpretation in practice of certain laws and guidelines with respect to this has changed over time and that the approach adopted was not inconsistent with the interpretations or common practice that existed at the time of the transactions" [Footnote 15: "Deloitte comments 26 Jan 2009."].

The Swedish GAAP guidelines set out in RR11 (section 32) discussed above under 3.3.2, seem to indicate that any payment that represents a repayment of the acquisition cost of shares cannot be booked as income. Therefore, we do not consider it unlikely that the repayment from the capital reserve of SEB would have been deemed to be a repayment and should accordingly have been booked as a reduction of the acquisition cost of shares instead of as a profit.

Such possible reclassification would affect the MEUR 400 repayment that took place on 5 June 2002, and would thus reduce the distributable assets of SKBAB by the same amount.

It is also possible that the repayment of equity would have constituted an impairment test trigger of the SEB shares in the books of SKBAB. An impairment would differ from the treatment of repayment of capital in that, in a capital repayment, the acquisition cost of the shares is automatically reduced whereas in an impairment, the value is reduced only if and to the extent the current value of the shares is reduced below the acquisition cost.

The reasonable overall conclusion on Issue 3 would seem to be that the maximum amount of any possible overstatement of the distributable assets of SKBAB would be MEUR 400, whether based on a reclassification or an impairment."

2.5 Issue 4: Restructuring of SKBAB

In 2003 SKBAB was restructured as part of the divestment of its Swedish forest assets. As part of the transaction, which involved a series of dividend payments and acquisitions:

- a) SKBAB's subsidiaries SEB, Stora Enso Holdings UK Ltd ("SE UK"), Stora Enso Ireland Ltd, Stora Enso Australia Pty Ltd, Stora Enso Hellas A.E., Stora Enso Hungaria Kft and Stora Enso Brazil Ltda became direct subsidiaries of SEO;
- b) SEAB became the SEO subsidiary holding the Swedish mills and certain other subsidiaries of SKBAB; and
- c) as a result of the transactions, SEO's original holding in SKBAB, booked at MEUR 4,787, was replaced by separate direct holdings in SEAB, SEB, SE UK and in several smaller holdings. The transactions resulted in an increase in the overall carrying value of the holdings corresponding to SEO's former holding in SKBAB, by MEUR 1,465 (from MEUR 4,787 to MEUR 6,252).

The Informant questioned such "step-up" in the aggregate value of the subsidiaries in SEO's books and considered that an impairment of the SEAB holding should have been recognized in the Parent Company Accounts.

In their Report of 3 February 2009 to the Board, External Counsel presented the facts of and the conclusions made on this Issue as follows:

"3.4.1 Facts

SEO divested its Swedish forest assets in 2004 to a new company Bergvik Skog Väst AB. Currently [Footnote 16: "Information based on SEO 2007 Annual Report and Bergvik Skog AB (publ) 2007 Annual Report."], SEAB, holds a stake of 43.3 % in Bergvik Skog AB(publ) a Swedish public Company that acquired Bergvik Skog Väst AB in 2004. Prior to the divestment, a major restructuring of SKBAB and its subsidiaries was made.

In May 2003 SKBAB declared a dividend in the amount of MSEK 15,000 ---. The dividend was paid partly (MSEK 1,600) in cash but the main part was recorded as SEO's intercompany receivable from SKBAB.

On the next day SKBAB sold its subsidiaries SEB, SE UK, Stora Enso Ireland Ltd, Stora Enso Australia Pty Ltd, Stora Enso Hellas A.E., Stora Enso Hungaria Kft and Stora Enso Brazil Ltda to SEO. The purchase price (SEK 13,405,390,500, EUR 1,465,070,000) was set off by SEO against its dividend receivable from SKBAB. The difference was paid as an ordinary cash dividend to SEO.

Before the restructuring SEAB was a dormant company with a share capital of SEK 100,000. It was a direct 100% owned subsidiary of SEO and held shares in two companies, Stora Enso Activation AB and Stora Enso Scandinavia AB. Our understanding is that the value of SEAB was very minor at the time.

Later in June 2003 SEAB issued new shares to SEO against a contribution in kind by SEO of the shares in SKBAB to SEAB. The shares were valued in the books of SEAB at MSEK 25,000 approx. MEUR 2,700, reportedly equal to the book value of the assets and the liabilities of SKBAB plus the estimated value of hidden reserves (fair value) in the forest assets. The fair value of SKBAB was estimated [Footnote 17: "Memorandum by [name omitted here]/[name omitted here] dated 27 June 2003."] to be considerably higher than its book value due to the hidden reserves at least (MSEK 20,000) in the book values of its subsidiaries. We understand that SEB's fair value (MSEK 12,685) had been estimated by auditors [name of entity omitted here] and that SE UK's fair value (MSEK 682) was estimated based on a model agreed with [name of entity omitted here]. We have not received any documents or evidence concerning such valuations or otherwise supporting the valuations made and, therefore, have not been able to verify that such valuations have been made.

As a result of this transaction (the exchange of shares of SKBAB against shares in SEAB), the acquisition cost of SKBAB in the books of SEO, MEUR 4,787, was reallocated to the shares in SEAB. In addition, as a result of the sale of subsidiaries to SEO and the combined dividend preceding the exchange, SEO's balance sheet included the shares in the subsidiaries, valued at MEUR 1,465 in aggregate.

SEAB acquired from SKBAB its remaining subsidiaries and affiliated company shares (Stora Enso Skoghall AB, Stora Enso Pulp AB, Stora Enso Treasury Stockholm AB, Stora Enso Försäkrings AB, Stora Enso Holding Co NV, Stora Enso Transport & Distr AB, Fortek AB, Stora Enso News AB, Stora Enso Finepaper AB, Stora Enso Skog AB, Stora Enso Fors AB, Stora Trading AB, Papyrus AB, Stora Enso Holding A/S, Stora Enso (Schweiz) AG, Stora Enso Praha s r o and Billerud AB) at MSEK 16,378, which roughly corresponded to their book value, i.e. below their estimated market value of MSEK 25,000.

Finally, SKBAB, then holding only the forest assets, was merged to Bergviks Skog Väst AB, a shelf company acquired by SEAB to be the vehicle used for divesting the forest assets. As mentioned above, shares in Bergviks Skog Väst AB were acquired by Bergvik Skog AB (publ) in which SEAB holds a stake of 43.3%.

As a result of the above transactions SEO's original holding in SKBAB, carried at value MEUR 4,787, was replaced by separate direct holdings in SEAB, SEB, SE UK and several smaller holdings. The overall carrying value of the holdings in SEO's books thereby increased by MEUR 1,465 from MEUR 4,787 to MEUR 6,252.

3.4.2 Applicable rules/principles

As discussed above in connection with Issue 1, dividends received by a Finnish company are, as a rule, treated as income, irrespective of whether the dividends have been distributed from "pre-acquisition reserves" or from profits generated post-acquisition. Finnish GAAP and the Finnish Companies Act in

force before and after year 2006 do not make a distinction between dividends paid in cash or in kind (e.g. in subsidiary shares).

The requirements for impairment testing have also been discussed above in connection with Issue 1. It seems reasonable to conclude that a major restructuring of a subsidiary, including divestment of significant assets from a subsidiary would be an indication of a possible impairment that would lead to an obligation to test the subsidiary shares for impairment.

3.4.3 Conclusion on Issue 4

Deloitte has reviewed the recording of the dividends received from SKBAB and SEAB and related supporting decisions and documents available and stated that "[t]he transactions' in principle and the resulting accounting treatment adopted, as we have been explained by Stora Enso Oyj, for the re-organisation appears to be acceptable to our understanding under Finnish and Swedish legislation. However, Deloitte have not been provided with supporting evidence for the valuations recorded and therefore [has not been able to] comment on the reliability of the numbers used for the valuations."

The booking of the dividends from SKBAB to SEO as profit in the books of SEO seems to be in accordance with Finnish GAAP. We have not been able to verify the valuations of the subsidiary shares transferred to SEO in connection with the distribution and therefore cannot conclude whether the amount of profit booked is supportable. However, as the valuations of the most significant assets transferred were supported by external valuations (which we have not seen) and the auditors did not object to the transaction, it would not be unreasonable to assume that the values of the subsidiaries used should have been supportable.

However, as discussed regarding impairment testing above, a major change in the operations of SKBAB should possibly have triggered an obligation to test the shares in SKBAB/SEAB for impairment after the transaction. With reference to our discussion regarding retroactive impairment testing and valuation analysis in Section 5.3 below, it is quite possible that, even if impairment testing would have been made in 2003 following the transactions relevant to Issue 4, no impairment or at least no significant impairment would have been necessary."

2.6 Issue 5: Share premium in SEO's consolidated balance sheet

The IAS/IFRS consolidated accounts of the Group (the "Group Accounts") for 2007 include a share premium reserve in the amount of MEUR 525, even though the actual share premium reserve in SEO is MEUR 3,972 (as included in the Parent Company Accounts).

Based on the Internal Audit Report, the difference (MEUR 3,448) between the share premium reserve in the Parent Company Accounts and the Group Accounts appears to be due to the pooling method used when combining SKBAB's and SEO's accounts in 1998. The Internal Audit Report concluded that, since the Finnish share premium constitutes restricted equity, the consolidated Group Accounts showed a value for retained earnings of some BEUR 3.5 higher than actually was distributable and urged the management to seek advice as to the manner in which the values should be reported.

Apparently the issue had not been further pursued within the Company since the bookings no longer in 2008 (as a result of an amendment of the law in 2006) have any

impact on the distributable funds (which under the new law are determined solely by the Parent Company Accounts, not by the Group Accounts) making the issue moot. However, since until September 2006 the Group Accounts limited the extent of the distributable funds we have considered it necessary to have Deloitte examine whether the pooling of the accounts of Enso Oyj and SKBAB in 1998, when the companies were combined, was made in accordance with the applicable GAAP.

In their Report of 3 February 2009 to the Board, External Counsel presented the facts of and the conclusions made on this issue as follows:

"3.5.1 Facts

The Company's internal audit has noted that in the 2007 Group Accounts the Company disclosed a share premium in the amount of MEUR 525, even though the actual share premium in SEO was MEUR 3,972 (as disclosed in the SEO Parent Company Accounts). The difference of MEUR 3,448 was been booked into retained earnings. It is stated in the Internal Audit Report that this is due to SEO originally interpreting IAS as saying that, on a merger, all the equity of both companies was deemed to be distributable. The Internal Audit Report concludes that, as the Finnish share premium constitutes restricted equity, the consolidated accounts show a value for retained earnings of some BEUR 3.5 higher than can actually be distributed.

The Internal Audit Report urges the management to seek advice as to the manner in which the values should be reported. We understand that the issue has not been further pursued as the bookings do not have any impact on the distributable funds (which as a result of the 2006 amendments of the law are determined by the Parent Company Accounts, not by the Group Accounts).

3.5.2 Applicable rules/principles

The amount of equity and its representation in the consolidated accounts is determined to a large extent by combining the various subsidiaries' balance sheets with the parent company's balance sheet in the consolidation. As a result of the combination of SKBAB and Enso Oyj in 1998, SKBAB was combined with SEO's consolidated balance sheet through the pooling of interest method in accordance with the IAS 22 standard applicable in 1998 (IAS 22, Sections 77-82). Although the IAS 22 standard has been replaced by IFRS 3 in 2004, which prohibited the use of pooling, previous combinations which used the pooling method were allowed to be maintained. The proper use of the pooling method in the combination has been consistently confirmed by both [the previous external auditor] and Deloitte and we have no reason to doubt the correct use of the method.

As a consequence of the use of the pooling method, significant changes in the amount of equity booked compared to the separate company accounts may result from the elimination of the acquisition cost of the subsidiary shares. Such elimination difference has in Finnish practice been deducted primarily from the consolidated share premium fund or other restricted equity [Footnote 18: "See the General Guidelines on the Preparation of Consolidated Accounts issued by the Finnish Accounting Board (KILA), issued 1 November 1993, applicable until 21 February 2000, Section 4.3. The same conclusion can be indirectly drawn from the text of IAS 22 which states that the combination should be treated as if the combination would have taken place on the first accounting period presented. In addition, we have been advised by Deloitte that in the absence of detailed instructions of the treatment of various Finnish law based sub-items of equity, the above Guidelines could be used also in the preparation of IAS accounts and as the IAS/IFRS standards had not been officially adopted by the

EU in 1998, the Finnish Accounting Board had broader powers than currently to instruct also on the application of IAS standards.”].

3.5.6 Conclusion on Issue 5

According to our understanding, as confirmed by Deloitte, the use of the pooling method explains the difference between the share premium fund shown in the Parent Company Accounts and the Group Accounts. To describe the outcome in a simplified form, the use of the pooling method means that the initial distributable assets shown in the consolidated balance sheet of the combined entity (here SEO) as a result of the combination equals the sum of the distributable assets of the two entities combined (here Enso Oyj and SKBAB). We understand from Deloitte that the fact that SEO’s initial (1998) consolidated balance sheet did not include any share premium reserve is due to the share premium reserve being fully used for deduction of the elimination difference in the consolidation and not due to any share premium reserve being erroneously booked as distributable assets.

To summarize, we have found no reason to conclude that Issue 5 would involve any incorrect accounting treatment.”

2.7 Issue 6: Piecemeal revaluation of Swedish subsidiaries

Certain SEAB subsidiaries (being the Nymölla, Kvarnsveden and Hylte mills) were revalued in May 2005 to exceed their equity value by some BSEK 8,462. No such revaluation was made with respect to the other Swedish mill companies. The Informant questioned the basis for such revaluations.

This Issue can be divided into two parts. First, whether each revaluation, as such, is appropriate and, second, whether the Swedish GAAP allows such “piecemeal” revaluation of individual companies or whether revaluations can only be made simultaneously in respect of all Swedish mill companies.

In their Report of 3 February 2009 to the Board, External Counsel presented the facts of and the conclusions made on this Issue as follows:

“3.6.1 Facts

The values of the Swedish mills in the books of SEAB at 30 September 2008 were as follows:

[table omitted here]

The Informant has, in particular, noted that the book values of the Nymölla, Kvarnsveden and Hylte Mill companies exceed considerably their equity value. We understand that it has been a group policy to merge these subsidiaries into the parent (SEAB). The following revaluations were made in anticipation of such mergers:

SEAB’s holding in Stora Enso News AB was revalued in May 2005 by an amount of MSEK 4,650. The revaluation concerned SE Kvarnsveden AB (MSEK 2,550) and SE Hylte AB (MSEK 2,100). A corresponding booking into the revaluation reserve of SEAB in the amount of MSEK 4,650 was made. [Footnote 20: “SEO Internal Review Report 15 Dec 2008, slide 34.”] Stora Enso News AB was subsequently merged into SEAB and the revaluation resulted in no gain/loss upon the merger.

Stora Enso Fine Paper AB was also revalued in May 2005 by an amount of MSEK 2,100. The revaluation concerned the Nymölla Mill (MSEK 1,900) and the Grycksbo Mill (MSEK 200). A corresponding booking into the revaluation reserve of SEAB in the amount of MSEK 2,100 was made. [Footnote 21: "SEO Internal Review Report 15 Dec 2008, slide 34."] The Grycksbo Mill was divested in 2006 to a Swedish company Accent, but the Nymölla Mill still remains within the Group. Stora Enso Fine Paper AB has not been merged into SEAB due to some property issues. As we understand, there is currently no plan to merge the company once this issue has been resolved.

3.6.2 Applicable rules/principles

According to Deloitte "[u]nder Swedish GAAP, RR1:00 p38, the shares of the underlying companies should be revalued prior to any internal reorganizations, e.g. mergers, of companies being performed in order to avoid merger effects and maintain consistency in the consolidated financial statements". According to para 38 of RR1:00 (Koncernredovisning/Augusti 2000 (inkl. ändring av RR okt 2003 samt BNAR 2005:1)), "[i]n group restructurings, it may occur that a business is transferred from a subsidiary to another at a value other than its true value. The part of the book value of the subsidiary shares in the parent company's accounts which corresponds to amounts of goodwill and other differences between the valuation according to the acquisition analysis and the book values in the subsidiary and pertain to the transferred business shall in that case be revalued. The revaluation is done by redistribution of book values of shares in subsidiaries that are affected." [Footnote 22: "Unofficial translation. The original Swedish text reads: "[v]id koncernmässiga omstruktureringar kan det förekomma att en rörelse överförs från ett dotterföretag till ett annat till annat värde än verkligt värde. Moderföretagets redovisade värde på dotterföretagsandelarna skall då justeras, till den del det motsvarar goodwillbelopp och andra skillnader mellan värderingen enligt förvärvsanalysen och de värden som redovisas i dotterföretaget och som är hänförliga till den överförda rörelsen. Justeringen sker genom omfördelning mellan redovisade värden på andelarna i de dotterföretag som berörs".]

A revaluation reserve has constituted non-distributable equity under Swedish corporate legislation during the whole period 1998-2008.

2.7.3 Conclusion on Issue 6

Piecemeal revaluation in instances of internal reorganization to avoid merger gain/loss is in compliance with Swedish GAAP.

Thus, the treatment of Stora Enso News AB is in compliance with Swedish law. Deloitte has, however, noted that "the revaluations in Stora Enso Fine Paper AB should be reversed, as the contemplated merger did not take place. The basis is that a write-up was performed without a corresponding merger loss being recognised in the same period. This internal reorganisation should not result in a revaluation from a statutory perspective."

Deloitte further notes it is their "understanding that this should have no impact on distributable reserves as the amount should have been initially recorded within a 'Revaluation Reserve' which is not a legally distributable reserve".

As the revaluation has not increased Stora Enso Fine Paper AB's distributable assets and has not affected the value of Stora Enso Fine Paper AB in the books of SEAB and is eliminated on a consolidation at SEAB level, the revaluation has not had any impact on SEAB's equity position or its ability to pay dividend. Therefore, even if the revaluation was unfounded, it should not have any effects at the level of SEAB or SEO and on the matters reviewed."

2.8 Issue 7: The further issue

Beyond the six Issues originally raised by the Informant and summarized above, the Informant subsequently alleged that, while the transactions under each of the six Issues may, technically, have been correctly booked under the applicable GAAP, they constitute, in the aggregate, part of a plan intended to improperly inflate the amount of the distributable reserves of SEO, and as such create an exaggerated perception of the Company's ability to pay future dividends ("the Further Issue"). According to the Informant, this plan was built on the following elements:

- a) inflation of equity through distribution of pre-acquisition earnings and other dubious balance sheet items (see Issues 2, 4 and 6);
- b) booking of repayment of investment or capital as income (see Issues 1, 2 and 3); and
- c) omitted impairment tests (see Issues 1 and 4).

Further, the Informant argued that the plan aimed at supporting the SEO share price and thereby also at increasing the bonuses payable to the management. As a consequence, the Parent Company Accounts in his view failed to give a true and fair view of the financial status of the Company.

In their Report of 3 February 2009 to the Board, External Counsel presented the facts of and the conclusions made on this Further Issue as follows:

"4.1 Inflation of equity through distribution of pre-acquisition earnings and other dubious balance sheet items"

The Informant's principal allegation is that a significant part (or possibly even all) of the distributable profits in SEO's Parent Company balance sheet have been created through intra-group transactions of a dubious nature. According to the Informant, such distributable assets are not "represented by genuine external profits backed by realized cash". The Informant emphasizes that it is less relevant to ensure that the separate transactions have been booked correctly than to ensure that the overall view given by the accounts is true and fair. According to the Informant, the separate transactions, while individually possibly legal, have resulted in inflated and unsubstantiated equity in the Parent Company. In the Informant's view, the issues do not affect the consolidated IFRS accounts as the intra-group transactions which have created the discrepancy have been eliminated from the consolidated accounts.

According to the Informant, the most significant factor contributing to the creation of dubious distributable assets is the fact that SKBAB in the years 1999-2003 distributed as dividend approx. BEUR 2.7 more than it generated as profit. Such excess distribution was made from the distributable reserves of SKBAB that existed before the acquisition of SKBAB by Enso Oyj in 1998, in forming the current Group structure. The Informant's view is that the amount distributed in excess of post-acquisition profits in reality constitutes repayment of capital and not profit. In the Informant's view, treatment of the payments as repayment of capital would have resulted in the reduction of the book value of the shares in SKBAB by the same amount. Thus, the distributions should not have resulted in an increase in the equity of SEO. The Informant particularly points out that SKBAB, in 2003, distributed as dividend to SEO significant parts of its assets (including non-Swedish assets), valued at approx. BEUR 1.5. As a result, the total value of the assets originally in SKBAB became BEUR 4.8 +

BEUR 1.5 = BEUR 6.3. According to the Informant, this means that not only was the book value retained at the same level despite significant distributions, but the assets were actually revalued upwards as a result.

4.2 Booking of repayment of capital as income

Another means through which the Informant alleges that the Parent Company equity has been inflated is through repayment of invested equity from SKBAB's subsidiaries to SKBAB and the booking of such repayment of capital as dividend income, thus improperly increasing SKBAB's equity, which was subsequently distributed further to SEO. According to the Informant, such manipulation of invested equity/dividends took place in SEB in Germany, as well as in Stora Enso Fine Paper AB and Papyrus AB in Sweden. In addition, the Informant refers to alleged accounting issues in France, the Netherlands and Germany, where impairments were postponed unjustifiably. According to the Informant, impairments were aggressively postponed or neglected as they would have meant an immediate reduction of the distributable assets of the company making the impairments

4.3 Omitted impairment tests

The Informant states that, in his view, SEO should have automatically made impairment tests in connection with any distributions of money from Sweden to Finland, but such tests were never carried out. The Informant alleges that SEO's [previous external auditors], neglected to audit the transactions discussed.

As evidence of the fact that the valuation of SKBAB and its successor after 2003, SEAB, has been inflated, the Informant refers to the fact that the valuation of SKBAB/SEAB has remained the same despite the fact that SEAB currently holds far less assets than SKBAB did in 1998. E.g. the energy and forest assets have been divested and the gains distributed to SEO (and booked as profit in entirety). The Informant points out that the book value of SKBAB/SEAB, BEUR 4.8, corresponds to the fair market value of SKBAB before the combination in 1998. According to the Informant it is very difficult to justify that the book value could be retained at the original level after the stripping of significant assets, as the original book value already was the highest value that was acceptable, making it impossible that it could remain unchanged if assets are taken out of SKBAB.

In his own calculations, the Informant has concluded that the book value of SEAB in the books of SEO should be reduced from current BEUR 4.8 to approx. BEUR 3, i.e. an impairment of approx. BEUR 1.8.

4.4 Motives and consequences

According to the Informant, the amount of equity shown in the Parent Company Accounts has major relevance for the development of the share price, as the SEO share, having paid very stable dividends over the years, has been considered more as a bond than a share on the market. Therefore the continued ability to pay dividends has a pronounced relevance for valuation of the share and correspondingly the elimination of the distributable assets would have a significant detrimental effect even if there was no change in the actual financial situation of SEO. The Informant alleges that one of the reasons for inflating the distributable assets was the intention of SEO's previous management to support the market valuation of the SEO share price through aggressive means.

The Informant alleges that most or all of the issues he refers to were planned by certain individuals, as part of a large premeditated scheme aimed at maximizing the distributable equity in SEO. The Informant also seems to indicate that such plans were actively supported by the senior management of

the Company. According to the Informant, increasing the equity of SEO resulted in increased personal bonuses, which created a motivation for the scheme. The Informant alleges that his earlier attempts to discuss the issues he has now raised were halted by certain individuals.

4.5 Certain comments

When it comes to the allegations of the Informant relating to the Further Issue, it should be noted that, according to the Finnish Companies Act in force from 1 September 2006, the distribution of funds from a Finnish (parent) company shall be based on audited separate company accounts only, not the consolidated group accounts. Until end August 2006, the distribution of funds was, however, also limited by the consolidated group accounts, i.e. the law provided that the distribution of profits by the parent company must not exceed the retained earnings (and other unrestricted group equity) in accordance with the latest group accounts

Comparing the amount of "dividend cover" (distributable reserves) according to the Parent Company Accounts and the Group Accounts, one can conclude that the distributable reserves of the Parent Company have exceeded the distributable reserves of the Group during the period for the years 2003 to 2006. Accordingly, during those years when the "dividend cover" was capped by the Group Accounts, a possible incorrect statement of the distributable assets in the Parent Company Accounts would not have created an incorrect perception on the market of the Company's potential to distribute assets and thus the "dividend cover" would not be misleading.

For the years 2006 and 2007 the "dividend cover" was determined only on the basis of the Parent Company Accounts. As stated in Section 5.3, no impairment in the Parent Company Accounts for 2007 and 2006 seem to have been necessary. Further, as the distributable equity according to the Group Accounts for 2006 and 2007 was BEUR 3.65 and BEUR 3.42 respectively, it is reasonable to assume that also according to the Parent Company Accounts there had been sufficient headroom for the distributions made. As the impairments planned for 2008 are booked against the distributable reserves of the Parent Company, it would seem that the distributable assets according to the Parent Company Accounts would correctly reflect the current "dividend cover" after the impairment.

6.2 The Further Issue

We have not come across any evidence or indication that there was an intentional premeditated plan to improperly maximize the Parent Company's distributable assets. The absence of any such plan is also supported by the fact that until 2006 both the Swedish and the Finnish company laws limited the amount of distributable assets to the smaller of the amount distributable according to the Parent Company Accounts or the consolidated Group Accounts. As a result, maximizing the Parent Company's distributable assets through transactions that would be eliminated in the consolidation of the Group Accounts would not before 2006 increase the actual amount of distributable assets (excepting situations where the consolidated distributable assets were larger than the Parent Company distributable assets).

As stated above, the distributable reserves in the Parent Company Accounts were from 2003 until 2006 significantly higher than the distributable reserves according to the consolidated Group Accounts. Thus, since 2003 until the

changes in the Companies Acts of Sweden (on 1 January 2006) and Finland (on 1 September 2006), the alleged practices had no actual effect on the "dividend cover". Furthermore, the fact that at the combination in 1998 the SKBAB shares were entered into Enso Oyj's (SEO's) balance sheet at a value corresponding to the fair market value of shares, while it would have been entirely consistent with the accounting treatment of the combination as "pooling of interests" to enter the SKBAB shares in SEO's consolidated balance sheet at a value corresponding to SKBAB's net equity (approx. BEUR 3.0) [Footnote 25: "Such booking would have been allowed by ruling 1591/1999 of the Finnish Accounting Board."], is an indication that no such plan existed at least at the time of the combination. Such lower valuation would have allowed distribution of profits from SKBAB to SEO with much less worry for impairments, as the lower valuation would have created a correspondingly higher headroom for distribution of dividends without concern for impairment testing."

2.9 Findings, conclusions and recommendations presented to FAC and the Board

Upon completion of the Review, External Counsel on 3 February 2009 presented the findings of the Review to the FAC. The same summary was included in the External Counsel Report provided to the Board on 4 February 2009, and reads:

"Based upon the information made available to us and subject to the assumptions and qualifications stated in this Report, our findings, conclusions and recommendations in respect of the matters subject to the Review, as presented in detail below, are summarized as follows:

2.5.1 The accuracy of the financial accounts

Issues 5 and 6 do not give rise to any concerns or further considerations for the purposes of this Report. With regard to Issue 1, Issue 2, Issue 3 and Issue 4, we have concluded that, while the majority of the relevant transactions seem to have been properly booked, it is possible that either reclassification (from income to capital reduction) and/or impairment testing in some respects should have been made. We also can not exclude the possibility that, following a properly conducted impairment testing, some impairments of the assets in the Parent Company Accounts should have been made.

However, on the basis of the actual impairments planned for 2008, the retroactive calculation of impairments for 2007, as well as the analysis of asset valuations made in arrears for 2003, it would seem that, even if impairment testing had been properly made each year, at least no significant impairments of assets in the Parent Company Accounts would have been necessary. Further, we consider it reasonable to conclude that, even where reclassifications and/or impairments should have been made, any possible corrections to the relevant annual accounts would not have resulted either in:

- a) any distributions of assets in excess of amounts that could be lawfully distributed having taken place as a result of any of the alleged omissions or incorrect bookings; or
- b) any overstatement of any assets that would have any adequate relevance for an investor or any other third party having taken place, as (i) the Group Accounts for all of the relevant years seem to have been correct in all

material respects relevant to the Review and (ii) the “dividend cover” seems to have been sufficient during all of the years covered by the Review.

2.5.2 Reporting or disclosure obligations

The Company does not in our view have any reporting or disclosure obligations in Finland, Sweden or the United States as a result of any fact, matter or occurrence that we have become aware of in the Review.

2.5.3 2008 impairments

It is in our view reasonable to conclude that the amount of the impairments planned for 2008 (discussed in Section 5.1) is attributable in full to the financial year 2008 and may be disclosed accordingly in the Company’s financial reporting.

2.5.4 No damage to the Group

We do not consider that the Company and its subsidiaries, as a group, have suffered any loss or damage as a result of any of the transactions subject to the Review. However, we cannot exclude the possibility of an individual company’s financial accounts not giving a true and fair view of the company’s financial position in all respects following such transactions.

2.5.5 No damage to shareholders or third parties

We do not consider that any shareholder or other third party should have suffered any loss or damage as a result of any of the transactions subject to the Review.

2.5.6 Liability issues

Absent a bankruptcy or severe financial distress of the Company or any of its subsidiaries, we do not consider there to be grounds for concern that a shareholder or a third party could successfully bring a claim for damages against the Company, its subsidiaries or any individual, including Board members of the Company and its subsidiaries on the basis relating to the Issues.

2.5.7 No intentional wrongdoing

We have not seen anything which would indicate intentional wrongdoing or suggest a premeditated scheme with the aim of increasing the Parent Company’s equity in an inappropriate fashion.

2.5.8 Responsibilities and reporting lines

In conducting the Review, we have come across indications suggesting that the responsibilities of individual officers and reporting lines in respect of the relevant matters have not been clear and unambiguous in all respects.”

2.10 Further investigation of accounting treatment of purchase of own shares and subsequent reclassification

2.10.1 The Informant's additional allegation

During the Review the Informant continued to send to the Company extensive communication, including new allegations. On Saturday, 31 January 2009 (*i.e.* a few days before the Review was due to be completed by the delivery of External Counsel's report on Tuesday, 3 February 2009) the Informant presented, in an e-mail, some additional allegations in respect of Stora Enso's Group Accounts (which had been prepared under the international IAS/IFRS accounting standards) which he argued to have a material impact on the issues under review and on the alleged accounting malpractices.

The Informant *inter alia* alleged that Stora Enso's IAS distributable equity had been manipulated in connection with the accounting treatment of share buy-backs (purchase of own shares). In his e-mail Informant stated the following:

*"In the SEO legal accounts you can see these costs have been deducted from distributable equity - Retained Earnings, in accordance with Finnish law. In Appendix (2) you can see their treatment in the IAS Annual Report - they are deducted from Non-Distributable Equity - Share Premium. I queried this with [name omitted here] and [he/she] agreed that there was no reason to have a different treatment, that Finnish law guides what we should do. However the matter was referred to [his/her] superiors for approval and the response was to leave it alone, coming out of Non-Distributable Equity as we needed Distributable Equity."*¹

The Informant's above statement was understood by the Company to mean that, in his view, although Stora Enso's Parent Company Accounts under Finnish GAAP were correct in their treatment of the acquisition of the Company's own shares, the Group Accounts were incorrect due to booking the costs of the purchase as a deduction from the Share Premium fund.

The figures provided by the Informant as well as the accounting treatment of the purchase and cancellation of own shares in Stora Enso's previous (2000-2007) annual accounts, both Parent Company and Group Accounts, were examined in detail by External Counsel and the Company's external auditors. In such context it became evident that there was indeed an error in Stora Enso's accounting of its purchase of own shares. However, the problem was different from that alleged by the Informant. It related both to the Parent Company and to the Group Accounts, while in the Informant's view the problem apparently only related to the Group Accounts. The Parent Company Accounts seem to have been correct in this respect in the Informant's view.

External Counsel concluded that the problem was not in the accounting treatment of the purchase of own shares, the acquisition cost of which had been booked as a negative item in both balance sheets, thereby reducing distributable assets in a

¹ In Informant's message, "SEO" referred to Stora Enso Oyj (the Parent Company) and "SEO legal accounts" to the separate company accounts prepared by Stora Enso Oyj under Finnish GAAP as opposed to the consolidated Group Accounts prepared under IAS/IFRS by the whole Stora Enso group (which Informant calls the "IAS accounts").

manner required by the Finnish Companies Act. Instead, there was a mistake in the manner in which the subsequent cancellation of purchased shares had been booked. The cancellation had been booked as a decrease of share capital, a decrease of share premium fund by the price in excess of the nominal value and an increase of distributable profit by the total amount of the two previous items. This decrease of the share premium fund and the corresponding increase of distributable profit meant that the purchase of own shares, which initially reduced distributable equity, after the cancellation of the purchased shares reduced the non-distributable equity instead. As a result, the purchase and cancellation of own shares did not reduce the distributable equity at all, as it should have. This error was essentially the same in both the Parent Company Accounts and in the consolidated Group Accounts despite the differences of Finnish GAAP and IAS.

As the matter had been brought to the Company's and External Counsel's attention only a couple of days before the dead-line for the issuance of the final report of the Review, the report of 3 February 2009 referred to above did not address this issue. Instead, the findings were presented in a separate memorandum the next day addressed to Stora Enso's Board, dated 4 February 2009, which in relevant parts reads as follows:

"Background

- 1. The Informant, in an e-mail of 31 January 2009, brought up an allegation according to which SEO's acquisitions of own shares have been incorrectly booked in the SEO Group Accounts.*

Facts

- 3. SEO acquired own shares from the market in the years 2000-2005.*
- 4. We have not identified any errors in the acquisitions of shares or the accounting treatment of such acquisitions.*
- 5. The problem concerns the manner in which the cancellation of the shares acquired has been booked. In the cancellation, the share capital of the company had to be reduced with the nominal amount of the shares cancelled. According to the law, such nominal amount should have been transferred to the share premium fund of the company.*
- 6. However, the company has, in the cancellation, in addition to decreasing the nominal share capital, also decreased its share premium fund with the amount of the acquisition cost of the shares (less the nominal share value). Simultaneously, the company has booked the amounts deducted from the share capital and the share premium fund as an increase in its retained earnings. In our view, such bookings do not correspond to market practice, nor to the law.*
- 7. The manner in which the cancellations were booked led to a situation where the acquisition of own shares, although initially decreasing the distributable equity, ultimately ended up decreasing the restricted equity. No explanation of why the booking has been made in such manner has been given.*
- 8. Deloitte and we have concluded that, absent any acceptable explanation, the relevant bookings are not justified and therefore incorrect.*

9. *The [previous external auditors] have issued clean audit reports for all the years during which the relevant bookings were made.*
10. *The relevant bookings have taken place in the years 2001-2006, and the aggregate amount of such bookings over these years is approximately BEUR 1.5.*
11. ***The relevant bookings have not affected the total amount of equity of either the parent company or the group and should be restated by transferring the relevant amount from the retained earnings to the share premium fund.*** [bolded here]
12. *The consequence of the restatement is that the parent company distributable equity will, after the proposed impairments, become negative with approx. MEUR 400. As a consequence, the company will not be able to distribute any dividends at the AGM 2009.*
13. *The relevant bookings have to our understanding not resulted in any unlawful distributions from the company having taken place in any of the years preceding 2009.*
14. *The relevant bookings would have been acceptable, provided that the AGM resolving upon the cancellation of the shares would have expressly resolved to also decrease the share premium fund and the company, subsequently, would have filed for the approval of the creditors in an official procedure before the Trade Register of the Finnish Office for Patents and Registrations taking some 3-4 months ("creditor protection procedure"). This has, however, not been done. We are aware of an other listed company having made bookings in accordance with such procedure in 2004.*

Proposed restatement

15. ***At the restatement, the amount corresponding to the relevant booking (approx. BEUR 1.5) would increase the share premium fund of the company. This fund (in the aggregate some BEUR 5.5 following the restatement) could be reclassified as distributable equity, provided that the AGM approves this and subject to the creditor protection procedure.*** [bolded here]. *However, a creditor might object to such reclassification, in which case either its claim would have to be settled or the procedure stopped. Under ordinary circumstances, creditors would be very unlikely to present objections in similar procedures. Whether the same would apply under the present circumstances is difficult to assess.*
- 15.1.1. *After the above procedure, the distributable equity so created can be distributed after an EGM has confirmed interim accounts evidencing the existence of such distributable assets.*
- 15.1.2. *Alternatively, the share premium fund could be used for direct distribution to shareholders, subject to similar creditor protection procedure without the need for an EGM or the preparation of interim accounts.*
- 15.1.3. *The above means that, while the company may not distribute dividends in the spring of 2009, it could (subject to the above procedures) make an equity distribution to its shareholder towards the end of the summer, at the earliest.*
- 15.1.4. *In case the Board would propose to use any of the procedures in paras 15.1 -15.3 above, the requisite proposals should be included in the notice for the AGM.*

16. *The possible restatement should be disclosed in the company's financial reporting in sufficient detail.*

Impact on the conclusions in our Report²

17. *Having considered the impact of the relevant bookings on the conclusions and recommendations made by us in the Report, we do not believe them to be materially affected by the recent findings, although we bring the following to the attention of the Board: [bolded here]*

17.1.1. *The Report assumed that the Group Accounts were correct. However, both the SEO Parent Company Accounts and Group Accounts were identified to be incorrect as a result of the relevant bookings. This affects the accuracy of our conclusions in the Report to the extent that they rely upon the Group Accounts being correct. It also significantly diminishes the distributable equity headroom referred to in the Report. However, we do not believe that this, as such, has a material impact on our conclusions in the Report. [bolded here]*

17.1.2. *As the relevant bookings result in an unjustified increase of the company's distributable equity, it seems appropriate in light of some of the allegations made by the Informant, to further examine the reasons for the elected treatment. [bolded here]*

Further suggestions

18. *It would seem appropriate to interview at least certain former employees of SEO in order to try to establish the basis of the relevant bookings also in the context of the company's dividend distribution policy."*

2.10.2 Reclassification of certain equity components

The error in the SEO Parent Company Accounts was significant in the sense that, under the Finnish Companies Act in force in 2009, the distributable assets of a company are determined solely on the basis of parent company accounts. Thus, the reclassification of equity of the Parent Company Accounts led to a reduction of Stora Enso's distributable equity by the full amount of own shares purchased. As the distributable equity according to the Finnish Companies Act (as in force since 2006) is determined only on the basis of the Parent Company Accounts, the reclassification of the Group Accounts had no such effect. Accordingly and as the reclassification did not affect the total amount of equity reported, the effect of the reclassification in the Group Accounts was of less significance.³

On the day (5 February 2009) following the day on which the Board had received the External Counsel memorandum referred to in Section 2.10.1 above, the Board in resolving on the closing of the Company's books for the financial year 2008, also

² "Our Report" here refers to the Report of 3 February 2009 of External Counsel in the First Investigation.

³ In this respect, it should be noted that as part of the Investigation it was examined whether the restatement, if carried out in years 2000-2006 would have decreased the consolidated distributable assets in such a manner that the dividends and share buy backs actually made by Stora Enso in such years would have exceeded the (hypothetically restated) distributable assets. Before 1 September 2006 the distributable assets of a Finnish company were determined by the smaller amount of distributable equity shown in either the parent company or the consolidated accounts. It was concluded in the Investigation that even if such restatement had been made in any of the years until 2006, the distributions made would still have been legal.

decided on a reclassification of certain equity components as proposed by External Counsel in the memorandum and issued a stock exchange release announcing such reclassification as follows:

"05 February 2009

Stora Enso reclassifies its equity components

STORA ENSO OYJ STOCK EXCHANGE RELEASE 5 February 2009 at 06.58 GMT

Stora Enso Oyj (parent company), due to an incorrect classification between restricted and distributable equity upon the cancellation of its own shares in the years 2001-2006, has reclassified EUR 1 512 million from its retained earnings to its share premium account. The reclassification has no impact on the total equity in the Parent Company or in the Group. The reclassification requirement was identified during the 2008 annual accounts reporting and closing process.

The distributable reserves after this reclassification were sufficient to pay the dividends during the entire period, including year 2007. However, the significant downturn in the business outlook due to the global economic slowdown has resulted in impairments in the Group (as disclosed on 19 January 2009) and Parent Company accounts. The impairments, in combination with the EUR 1 512 million increase of restricted equity and corresponding decrease in distributable equity, have led to negative distributable equity in the Parent Company of approximately EUR 400 million.

To re-balance the equity components and to be able to pay a return to Stora Enso's shareholders in line with its dividend policy in 2008, the Board of Directors of Stora Enso Oyj will propose to the Annual General Meeting (AGM) that EUR 2 042 million of restricted equity funds (share premium fund and reserve fund) be transferred to distributable equity (invested unrestricted equity fund) and that EUR 0.20 per share of capital from the share premium fund be distributed to the shareholders. If this proposal is approved by the AGM, the change is then subject to consent from Finnish National Board of Patents and Registration (pursuant to the provisions of Chapter 14 of the Finnish Companies Act). The payment is expected to be made during the third quarter of 2009. The proposed amount of EUR 0.20 per share, a reduction of about 50% from the past few years, is a balance between safeguarding the cash position of the Company and continuing to pay an annual return to shareholders. --"

Stora Enso's Annual General Meeting (AGM) on 1 April 2009 approved the Board's proposal that, in lieu of a dividend, EUR 0.20 per share of capital, in total EUR 157,907,699.80, be distributed to the shareholders from the share premium fund of the Parent Company, conditional upon the Finnish National Board of Patents and Registration's consenting to a corresponding decrease of Stora Enso's share premium fund.

The Finnish National Board of Patents and Registration subsequently confirmed the decrease by Stora Enso of its share premium fund by said amount and the distribution of the funds took place on 10 August 2009.

2.11 Further review and completion of the First Investigation

2.11.1 Follow-up investigation

As had been recommended by External Counsel, the Board decided to conduct an investigation into the reasons for the incorrect accounting treatment of the cancellation of the Company's own shares. Interviews with several individuals were conducted to this effect and to further explore the Informant's allegation of a premeditated scheme having existed to increase the Company's "dividend cover".

In such follow-up investigation of the origins of the incorrect accounting treatment that had led to the reclassification, no evidence of intentional misconduct or of the use of the incorrect bookings to maximize the distributable assets of Stora Enso was found. External Counsel, in a memorandum of 20 March 2009, addressed to the General Counsel, stated as follows:

"The interviews have in our view revealed no indications of any deliberate intention to e.g. manipulate the accounts of the Company, but the error would seem to originate from a human mistake and misjudgment in determining the correct accounting treatment.

Heavy workload relating inter alia to the SEC listing of Stora Enso at the relevant time was mentioned as one potential explanation for possible lack of attention and/or the inadequate recording of the transactions in 2001.

Impact on our previous conclusions

According to our understanding, we have now interviewed those persons within Stora Enso who would provide relevant information on the facts surrounding the bookings. The interviews have not in our view revealed any signs of any intentional wrongdoing and our conclusion to this effect in the Report therefore remains unchanged."

As stated, the continued investigation and interviews did not reveal any signs of any intentional wrongdoing and External Counsel's conclusion to that effect in the Report remained unchanged.

2.11.2 Contacts with FIVA

Before issuing its stock exchange release on 5 February 2009 on the reclassification, representatives of the Company informed FIVA about the incorrect booking and reclassification. On 18 February 2009 FIVA requested that the Company provide an account on the events that led to the incorrect classification of equity components and of the reason for the mistake not having been noticed before the preparation of the 2008 annual accounts. The Company was also requested to describe the action it had taken to eliminate similar mistakes in the future.

The Company responded to FIVA's inquiry by letter dated 16 March 2009. Following the Company's reply, FIVA concluded that it had no objections to the account given by the Company explaining the reasons for the error and its correction. FIVA, however, also noted that should e.g. the investigation by the Finnish Auditing Board of the Company's auditors not having reacted to the incorrect booking of the Company's

repurchase of shares when auditing the accounts result in further relevant information being identified, FIVA might revisit the matter.

2.11.3 Examination by the Finnish Auditing Board

The Finnish Auditing Board, prompted by the Company's stock exchange release of 5 February 2009 addressing the equity component classification mistake, initiated its own investigation in the matter as part of its role of supervising Finnish Chartered Accountants.

In such context the Auditing Board also *inter alia* requested written comments from the Company, the Company's former responsible auditor and auditing firm, having been the Company's auditors during the relevant time. In April 2010 the Auditing Board concluded that the Company's auditors had not complied with good auditing practice in not noticing the incorrect treatment of the cancellation of the purchased shares, and issued a reprimand to the responsible auditor. As regards the origin and reason for the error, the procedures before the Auditing Board did not uncover any further information.

3. The Second Investigation (16 November 2009 – January 2010)

3.1 Background

During the course of November 2009, members of the senior management of the Company received a number of e-mails from the Informant. The e-mails included allegations of the Company's accounting procedures and reporting items, which according to the Informant were inaccurate and did not comply with statutory requirements. He also expressed dislike in respect of various Stora Enso officials and recent appointments and requested certain personnel changes to be made.

The General Counsel and the Head of Internal Audit decided on the initiation of an internal investigation of the allegations and the General Counsel informed the Chairman of the Board and the Chairman of the FAC of such investigation by e-mail on 20 November 2009.

On 20/23 November 2009 the Company informed FIVA of the fact that a senior employee at the Company's accounting department (being the Informant) had made internal complaints about a large number of instances of alleged misbehavior and irregularities, including several alleged violations of various accounting and reporting rules and regulations. The Company further informed FIVA that the Company would investigate the issues internally and revert to FIVA if there were any findings in respect of which they should be informed.

On 23 November 2009 the Company's General Counsel together with another in-house counsel met the Informant. The General Counsel informed the Informant of the commencement of an investigation, advised him that the alleged accounting irregularities will be properly investigated by the Company and that also the more subjective statements made by him will be properly scrutinized.

The Company's Internal Audit conducted an analysis to identify the accounting items that the Informant had raised with the Company and established a preliminary investigation plan. The report and preliminary investigation plan was submitted to the FAC on 7 December 2009. The Board was informed accordingly on 8 December 2009.

The Second Investigation was then carried out by Internal Audit, with the assistance of Legal, external auditors and External Counsel (being Mr. Tomas Lindholm of Lindholm Wallgren Attorneys, Ltd., "Lindholm Wallgren") between 10 December 2009 and 25 January 2010. The Company also engaged a global firm providing forensic services (the "External Forensic Advisor") to assist the Company's Internal Audit in evaluating the allegations. Based on the External Forensic Advisors' preliminary review and analysis of 4 December 2009, certain specific areas were selected for further review procedures by the External Forensic Advisor (being Accounting issue 1: Stora Enso North America, Inc ("SENA") disposal and material presented at the Annual General Meeting 2008; Accounting issue 2: SENA guarantee and contingent environmental liabilities; Accounting issue 3: Partly disposed Arapoti operations (alleged misrepresentation/manipulation of impairment testing calculations); Business decision issue 1: "Gentleman's agreement" when buying Arapoti; Business decision issue 2: Partly disposed Arapoti operations: (alleged) false information given to the Board of the reasons for the loss; and Business decision issue 5: Environmental issues (SENA guarantee and contingent environmental liabilities). Certain other issues were also investigated by the Company's Internal Audit in the context.

On 22 January 2010 the External Forensic Advisor issued a draft preliminary status update of work performed.

Findings and conclusions of the Investigation, as well as corresponding recommendations were presented to and discussed with Legal, external auditors and External Counsel on 26 January 2010.

3.2 Findings in the Internal Audit's preliminary report in January 2010

The preliminary Investigation report of 28 January 2010 of the Company's Internal Audit addressed the separate allegations brought forth by the Informant and concluded the following:

3.2.1 "Allegation A1"

- Issue: SENA disposal and material presented at the Annual General Meeting 2008. Inconsistency between figures presented to the Board and at the Annual General Meeting 2008. SENA disposal and calculations relating to total loss and cash element: an advice from [name omitted here] that [name omitted here] wanted to report a cash loss of only about €2 billion (instead of €3.2 billion).

- Investigation procedures: Review and analysis of internal material and calculations, comparison to the ones presented and evaluation of whether sufficient information was presented.

- Observations and conclusions:

- 1. The term "cash flow" is a generic term used differently depending on the context. It may be defined by users for their own purposes.*

2. Information presented at the AGM regarding cumulative SENA total losses is voluntary information, there is no exact guidance how to calculate and present cumulative effect of divestment of a foreign subsidiary.
3. Cash flow information relating to divestment results are not required by IFRS or other regulation
4. The basis for preparing SENA cash flow was appropriately disclosed in the footnotes in the slide presented at the AGM i.e. a) No financial items have been presented or taken into account in the cumulative cash flow; and, b) Hedge gains are included in the divestment.
5. Discussion was also held at the Board and FAC as to the best method to present the loss of SENA, all options were considered and collectively it was decided to use the €2 billion method.
6. The total loss calculation presented at the AGM is not part of the official financial statements and therefore not expected to be audited and hence there is no expectation that this should be clarified to the audience.

Opinion and recommendations: Since there is no normative basis determined for voluntary disclosure and cash flow calculation of this nature, our conclusion is that in reporting the total loss on SENA disposal, the company has not violated applicable accounting standards or disclosure rules. We do not see need for further actions."

3.2.2 "Allegation A2

- Issue: SENA guarantee and contingent environmental liabilities. Unclear valuation, everything may not have been taken into account. Unclear status of PM 35 guarantee and contingent environmental liabilities.

- Investigation procedures: Review and analysis of the basis for the valuation of NewPage guarantee and the methods used. Review of contingent environmental liabilities. Review of minutes of the Audit Committee meetings and relevant appendices.

- Observations and conclusions:

1. The accounting and method of valuation related to SENA guarantee and contingent liabilities have been presented in the Annual Report.
2. The valuation method of NewPage guarantee has been subject to audit procedures carried out by the external auditors, which have concurred that management's approach was reasonable.
3. On July 15, 2009 the investment in NewPage and the vendor note (valued USD 245 million and USD 106 million as at 31.12.2008, respectively) were both impaired to nil.
4. External auditors have requested support and analysis from management regarding PM 35 lease guarantee. Our understanding is that auditors concur that management's approach is reasonable.
5. Environmental liabilities: Limited contractual liability exists, no changes in obligations were noted based on our review.

Opinion and recommendations: In our view there is reasonable basis to conclude that the valuation of SENA guarantees has been done in accordance with generally accepted accounting principles. As far as PM 35 lease guarantee

and contingent environmental liabilities are concerned, both are 2009 year end audit matters, subject to Deloitte's review. We are not aware of significant accounting disputes."

3.2.3 "Allegation A3

- Issue: Partly disposed Arapoti operations: false information given through a press release. Misrepresentation and/or manipulation of the impairment testing calculations. Instructions to fix the accounting.

- Investigation procedures: Review of documentation including internal calculations and methods used in purchase price allocation (PPA) and impairment tests. Discussions with persons responsible for PPA and impairment tests including the walk-through of calculations. Obtaining clarifications from Group Accounting.

- Observations and conclusions:

- 1. The allegation suggests that the 12month period for doing the purchase price allocation as stipulated by IFRS was over and the company should have recorded a loss on disposal. Arapoti acquisition was finalized on 1 Sep 2006 and the partial disposal was 27th Sep 2007. Our conclusion is that the acquisition was accounted for in Q3 2006 and the partial disposal in Q3 2007, thus within 12month window on quarterly basis. It is also our understanding that the fair values (disposal valuation) were determined within the actual calendar year. Consequently, no loss on disposal was recorded as per IFRS. Our conclusion is that the disclosure, including the information in the press release was correct.*
- 2. Impairment: Arapoti was included in the goodwill testing for the global CGU coated magazine and the resulting impairment charge was allocated to various mills. It appears that the 90 MEur goodwill resulting from the purchase price re-allocation was effectively accounted under the fixed asset impairment, and therefore resulted in incorrect disclosure between goodwill and fixed asset impairment in the notes to the consolidated financial statements. Our view is that the income statement and closing equity are correct, and therefore this is a reclassification, not a restatement issue.*

Opinion and recommendations:

In our opinion there is reasonable basis to conclude that suggested violations regarding false information in the press release are not valid, due to the fact that the purchase price was allocated within the 12 month window, and consequently did not result in loss on disposal as per IFRS.

We consider that the disclosure on fixed assets and goodwill impairment reported in 2007 was incorrect, as the goodwill allocated to Arapoti mill was accounted and disclosed under fixed asset impairment, within respective cash generating unit. We recommend that the Financial and Audit Committee advises management to inform the Financial Supervisory Authority about the incorrect disclosure in the 2007 annual report / consolidated financial statements."

3.2.4 Allegation A4

See "Items excluded from the scope of the investigation" under 3.2.10 below.

3.2.5 "Allegation A5

- Issue: Impairment tests in Russia. Unclear how impairment tests regarding Russian operations have been carried out and the amount of impairments recorded. Potential loan covenant breaches.

- Investigation procedures: Impairment issues have been reviewed and clarified earlier in connection with the Project [] and no additional procedures considered necessary. However, we understand that equity and thin capitalization rules in Russia should be clarified as covenants in EBRD loan may involve potential breaches.

- Observations and conclusions:

1. Based on the review of EBRD loan documentation, we have observed that covenants, as suggested in the allegation, do not exist.

Opinion and recommendations:

In our view there is reasonable basis to conclude that the company has not violated any thin capitalization covenants in relation to EBRD loan agreements, as such covenants are not enforced in the loan agreements."

3.2.6 "Allegation A6

- Issue: Deleting essential information (related party note concerning Papyrus divestment) from the Annual Report 2008 after auditors had audited the information. Important information may have been excluded from the Annual Report, possible improper acts against the auditors.

- Investigation procedures: Review of the internal instructions and other relevant documentation. Review of the minutes of the Board meetings. Interview with the auditors. Based on the review, evaluate whether adequate information has been disclosed in the Annual report 2008.

- Observations and conclusions:

1. Appropriate measures were taken by the CEO to disqualify [name, position omitted here] from any decision making related to the Papyrus divestment in order to provide for potential conflict of interest.
2. The Board of Directors were duly informed about the circumstances which in the absence of specific disqualification measures would otherwise have led into conflict of interests.
3. This is a judgmental area and the two parties are not related parties simply because they have a director or other member of key management personnel in common.
4. According to a statement received from external auditors [---], the matter was discussed with auditors, and it was a mutual view between the management and external auditors that due to the judgmental nature of whether significant influence was asserted there is no clear requirement to include a related party disclosure to the annual report, further supported by the effective precautions implemented to address the potential conflict of interest. Thus, our conclusion is that no information related to the substance matter was withheld from external auditors.
5. [Name of entity omitted here] was permanently reported in the public domain (Stora Enso's Public Insider Register) as a corporation where

[name/position omitted here] exercised influence as a member of the board. Regardless of the procedures which were carried out, including additional comfort from [Name of entity omitted here] regarding [name/position omitted here]'s non-involvement with the transaction, a related party circumstance, as described in IAS 24, existed at the time of the transaction.

6. *Therefore, it is our view that the company should have disclosed the related party relationship under note 32 to the consolidated financial statements, in accordance with IAS 24 [17],*

Opinion and recommendations:

It is hereby recommended that the Financial and Audit Committee considers whether this should be disclosed to the Financial Supervisory Authority."

3.2.7 "Allegations B1 and B2

- Issues: "Gentleman's agreement" when buying Arapoti from Industrial Papers. Insufficient due diligence of the Target before the purchase. The purchase may not have been done in a good manner. False information given to the Board of the reasons for the loss.

- Investigation procedures: Review of the initial Arapoti acquisition in 2006. Identification of any exceptional and unusual procedures, detection of any non-compliance with internal instructions. Review of internal instructions relating to business acquisitions, Acquisition process in general, Due diligence carried out and reports; Agreements concluded (SPA, LOI), Material presented to the Board, Decisions made by the Board.

- Observations and conclusions:

1. *Limited or incomplete documentation available.*
2. *Lack of documentation suggests that there has been several departures from company's M&A guidelines.*
3. *Post-analysis of the acquisition and divestment process was carried out by the BoD (Oct 16, 2007), conclusions of the BoD support the allegation.*
4. *Incorrect assessments made in the acquisition process: Arapoti operating performance much below projections, market and currency risks inappropriately considered, VAT recoverability overestimated, forestlands undervalued, unclear project ownership and responsibilities, lack of process co-ordination and use of local resources, lead advisors lacked knowledge of local accounting and regulatory rules.*

Opinion and recommendations:

Suggested shortcomings and deficiencies in the acquisition process have been recognized by the Board.

Evaluation of the corrective actions has not been performed.

Evaluation of the M&A process is included in 2010 internal audit plan."

3.2.8 Allegations H1-H3

[Omitted here for privacy reasons.]

3.2.9 "Allegations H4-H5

- Issues: 4) Overtime hours relating to preparation of Annual report 2008 were not paid even though were promised to be paid beforehand. 5) Other employees take credit for work done by the complainant (e.g. [---])

- Investigation procedures: Review of the employment contract and policies for paying overtime hours. Interview of co-workers.

- Observations and conclusions:

- 1. According to HR, on Director level employment contracts there is a specific clause which stipulates that overtime hours are not paid. Preparation of annual accounts and reporting demands extra efforts and focus in Group Controlling with limited period of time. This is the reason employer decided to pay extra project payment to preparation team.*
- 2. The proposal was prepared [---]. This kind of one-time payment / reward is used in project-type extra work, and is discretionary. According to HR handling has been equal; project payment was paid to the whole team and proposal was properly augmented.*
- 3. Allegations that credit has been taken by co-workers for others work was not substantiated by interviewed co-workers*

Opinion and recommendations:

Explicit breaches of employment contract, HR policies or Code of Conduct were not noted."

3.2.10 "Items excluded from the scope of the investigation

Allegation A4: UK pensions: the liability (the defined obligation) has increased while the asset value stayed the same. Swedish pension reporting: validity of mortality assumptions. Validation of investigation scope with complainant, on January 7, 2010 : pensions removed from scope. Subject to 2009 audit procedures carried out by Deloitte.

Allegation A6 and B4: Baltic acquisitions and alleged improper attempt to allocate goodwill or costs to Finland to be suffered by the Finnish paper mills. Allegation that Timber has invoiced WS companies for goodwill disguised as "chip service charges". No need for additional procedures no goodwill exists anymore."

3.3 Decisions by the FAC and the Board

The above preliminary results of the Investigation were presented by the Head of Internal Audit and the General Counsel to the FAC at its meeting on 2 February 2010. According to the minutes of the meeting it was recorded that Internal Audit had carried out a review of several allegations with the support of the Legal Services, the Company's auditors, as assisted by the External Forensic Advisor to perform certain agreed procedures as independent forensic expert, as well as by External Counsel. With the exception of two issues, the Investigation had not revealed any violations by

the Company or its employees of any accounting laws, rules or regulations and, in particular no restatements of financial accounts were necessary as a result of the allegations. The two issues that had been potentially incorrectly treated accounting- or disclosure-wise were (a) a possible violation of IAS 24 by not including a related party disclosure in the 2008 financial statements relating to the sale Papyrus and (b) incorrect disclosure of impairment on the fixed assets and goodwill on Arapoti mill in the 2007 financial statement. According to the minutes, the Head of Internal Audit explained the issue more in detail to the FAC and noted that the Internal Audit recommends and management had endorsed that the issues be reported to FIVA. The FAC concurred with the view of reporting the issues to FIVA.

At the time of the FAC meeting, the External Forensic Advisor had not yet issued their final report on matters investigated by them. However, on the basis of informal updates by the External Forensic Advisor during the course of the Investigation, Internal Audit was comfortable in making preliminary conclusions and recommendations on the matters under investigation.

On 3 February 2010 also the Board received a verbal report from the General Counsel of the pending investigations, including the recommendation to consider reporting the two items to FIVA. The Board agreed with the recommendation to report and requested that it be kept posted on any progress in the matter.

3.4 Letter to FIVA 19 February 2010

By letter of 19 February 2010, the Company informed FIVA of the investigation measures taken as a result of the Informant's allegations, as well as of the investigation results and concluded *inter alia* that no restatements of the financial accounts were necessary as a result of the allegations. FIVA was further informed of the two matters where the Company may have been non-compliant with the applicable accounting rules. The relevant part of the Company's letter reads as follows:

"(a) A possible violation of IAS 24 by not including a related party disclosure in the 2008 financial statements relating to the sale of Papyrus

The matter investigated related to the sale of Stora Enso's merchant business in 2008. The question under investigation was whether [name/position omitted here] of Stora Enso, within the meaning of IAS 24, created a related party relationship between Stora Enso and the purchaser, i.e. [name of entity omitted here], as a result of [name/position omitted here] also being the [name of entity and position omitted here]. Before the Papyrus transaction had been negotiated and agreed, [name/position omitted here] had raised the conflict of interest issue with the Company's CEO, who had made a decision to disengage [name/position omitted here] from the sales process. The purchaser also confirmed to Stora Enso in writing that [name/position omitted here] had no involvement in the process on the purchaser's side. The observations and conclusion by the Internal Audit were the following:

- *Appropriate measures were taken by the CEO of Stora Enso to disqualify [name/position omitted here] from any decision-making related to the Papyrus divestment in order to avoid a potential conflict of interest.*

- *The Board of Directors of Stora Enso were duly informed about the circumstances which in the absence of the disqualification measures by the CEO would have led to a potential conflict of interest.*
- *This is a judgmental area and the two parties are not related parties simply because they have a director or other member of key management personnel in common.*
- *According to a statement received from external auditors (Deloitte), the matter was discussed with the auditors, and it was a mutual view between the management and the external auditors that due to the judgmental nature of whether significant influence was asserted there is no clear requirement to include a related party disclosure to the annual report, further supported by the effective precautions implemented to address the potential conflict of interest.*
- *[Name of entity omitted here] was permanently publicly reported (Stora Enso's Public Insider Register) as a corporation where [name/position omitted here] exercised influence as [position omitted here].*

Regardless of the procedures that had been carried out, including the disengagement of [name/position omitted here] in the sales process and [Name of entity omitted here] confirmation of his non-involvement in the process, Internal Audit preliminarily concluded that the Company should, according to IAS 24, have made a related party disclosure in its 2008 financial statements.

Internal Audit recommended that the Financial and Audit Committee consider informing the FIVA of the failure to make a related party disclosure relating to the Papyrus sale.

Following the meeting of the Financial and Audit Committee on 2 February 2010, Legal asked external counsel for an opinion on whether or not an IAS 24 related party disclosure should have been made in the financial statements 2008. According to such legal opinion, there are reasonable grounds to conclude that, under the prevailing circumstances, it was not necessary to include a related party disclosure in the 2008 financial statements.

(b) *Incorrect disclosure of impairment on fixed assets and goodwill on the Arapoti Mill in the 2007 financial statements*

Stora Enso acquired forest land, and a mill and a saw-mill in Arapoti in 2006 at an enterprise value of approximately 330 MEUR. The major part of the forest (80%) and the saw-mill were disposed of in 2007. The disposal resulted in a loss of [90] MEUR, compared to the values allocated to the disposed forest and the saw-mill on the acquisition. No loss on disposal was recorded as the disposal took place within the 12 months period referred to in IAS 3, which allows for purchase price re-allocation under such circumstances. In the financial statements of 2007 the 90 MEUR goodwill resulting from the purchase price re-allocation was accounted under the fixed-asset impairment.

The observations and conclusions by the Internal Audit were the following:

- *The 90 MEUR goodwill resulting from the purchase price re-allocation was accounted under the fixed asset impairment, whereas it should have been accounted as goodwill. The disclosure on goodwill and*

fixed asset impairment in the notes to the consolidated financial statements 2007 was therefore incorrect.

- *The income statement and closing equity in the financial statements were correct notwithstanding the incorrect disclosure.*

Internal Audit recommended that the Financial and Audit Committee consider informing FIVA of the incorrect disclosure.

The Financial and Audit Committee at its meeting on 2 February 2010 concurred with the recommendations of the Internal Audit and instructed Legal and Internal Audit to bring the two matters described above to the attention of the FSA.

In light of the relevant facts and based upon the applicable laws, rules and regulations, Stora Enso submits that

- (i) *the failure to disclose the Papyrus transaction in the 2008 financial statements as a related party transaction was not a violation of IAS 24 and, even if it were, this would not under the prevailing circumstances have had any material effect from a disclosure perspective; and*
- (ii) *while the 2007 financial statements in respect of the disclosure of the impairment on the Arapoti Mill were incorrect, this had no effect on the profit or the equity position, whether in any group company's accounts or in the Company's consolidated accounts.*

To conclude, Stora Enso did not consider that any of the matters subject to the complaints would give rise to any obligation to make any restatements of its accounts or any further disclosures."

3.5 Subsequent communication with FIVA

In the letter of 19 February 2010 to FIVA, the Company volunteered to further cooperate with FIVA and stated that it would be pleased to provide further information and meet with the representatives of FIVA.

Discussions between the Head of Internal Audit and FIVA took place between 12 March and 26 March 2010 to agree on a meeting between the Company's and FIVA's representatives.

A meeting between FIVA's representatives and the Company's representatives (Head of Internal Audit, Assistant General Counsel and External Counsel) took place at the Company's premises on 30 March 2010. On 16 April 2010 the Head of Internal Audit informed the FAC members of the outcome of the meeting with FIVA as follows:

- *"[FIVA's representatives] informed [the Company] representatives that in addition to the letter received from Stora Enso, they had also received several e-mails from the same complainant about alleged violations of various accounting and reporting rules and regulations in Stora Enso.*
- *A comparison of information was conducted to assess whether the scope of Stora Enso's internal investigations covered the allegations received by the FSA. It appeared that a majority of the issues were addressed within the internal investigations. However, some of the issues were already dealt with as part of [the First Investigation], which was carried out between November 2008 and February 2009.*

- *[FIVA's representatives] noted that the conclusions related to the two issues reported by Stora Enso to the FSA were reasonable and that no restatements of the financial accounts were necessary as a result of these observations.*
- *[FIVA's representatives] concluded that the way how Stora Enso has informed the FSA about the complaints and corresponding investigations was very much appreciated by the FSA.*
- *[FIVA's representatives] informed [the Company's] representatives that for the time being their work is being carried out on an informal basis and that no formal investigation has been initiated. Nevertheless, they would prefer to review the internal investigation conclusions related to the matters brought to their attention and potentially review investigation evidence and investigation workpapers to gain comfort that based on the evidence they would arrive to similar conclusions as the company did.*
- *It was agreed that a high level material, i.e. investigation report summaries to the Financial and Audit Committee would be shared with the FSA in the first stage. If issues arise, where they would require additional information, investigation work papers and relevant supporting material to the investigation would be made available to them, e.g. by setting up a data room.*
- *The FSA representatives did not set any specific dead-line by when the information should be delivered to them, but rather agreed that [the Company] would provide the information at [the Company's] convenience."*

During May–June 2010 FIVA reviewed the documents made available by the Company for its review.

On 17 August 2010 FIVA informed the Company's Head of Internal Audit that based on the information received from the Company FIVA sees no need for further action. Should new information on the matter come to its knowledge, FIVA would reconsider its position.

Subsequently, on 18 August 2010, Internal Audit presented a summary of the complaints and investigations to the FAC. The Head of Internal Audit reported to the FAC that FIVA had undertaken a review on certain related issues and had informally confirmed that it sees no need to start further investigations or other action in the matter unless it becomes aware of new information.

On 19 August 2010 the Board of Directors of the Company noted that FIVA has ended its investigation and see no reason to pursue the issue unless there is new evidence.

On 13 December 2010, apparently upon having been approached by the Informant in the fall of 2010, FIVA reverted to the Company with a request to receive materials related to the Investigations. On 23 December 2010 and 8 March 2011, respectively, the Company provided the material to FIVA as requested. On 16 February 2011 FIVA sent an additional request and expressed a desire to meet with the representatives of the Company in May–April 2011.

On 6 April 2011 a meeting between the FIVA representatives and the Company's representatives was held at Stora Enso. Present at such meeting representing Stora

Enso were the Chairman of the FAC, the Head of Internal Audit, the Assistant General Counsel and External Counsel. The agenda included (1) a status update by the Company on the measures undertaken due to the submitted complaints, (2) presentation by the Company of the role of the FAC in the related investigations, (3) a short description by FIVA of the work done by them on the matter, (4) FIVA's conclusions on the most severe allegations of the Informant ("internal money-go-round" 1998-2009, subsidiary impairment testing, reclassification of equity and total financial impact of the SENA sale); (5) discussion on other matters where inaccuracies have been identified (incorrect disclosure of impairment on fixed assets related to the sale of Arapoti, the sale of Papyrus in 2008 and related party information, other acquisitions (e.g. Baltic Timber, Schneidersöhne) and year 2010 Internal Audit reviews relating to the Company's due diligence processes) and (6) the role of FAC in the Company's financial reporting process, presented by the Company.

In the meeting FIVA confirmed that they have not deemed it necessary to conduct any further investigation based on the Informant's submissions.

The Company's representatives described to FIVA the role of the FAC in the Investigations that, under the supervision of the FAC and the Board, had been lead by the General Counsel together with Internal Audit.

The FIVA representatives told that the Informant had provided them with a lot of materials and allegations, not all falling within FIVA's authority. They further noted that the matter had also been discussed at FIVA's management team and that FIVA is satisfied with the materials it has received from the Company.

The main items reviewed by FIVA, as noted above, were the alleged "internal money-go-around", the subsidiary valuations and the reclassification of equity. In all these FIVA considered that as the Investigations had been carried out by independent external legal counsel with input from the external auditors FIVA did not see any reason for further measures. FIVA specifically asked whether the Company should have done impairment testing of the subsidiary share valuations in 2007, to which the Company responded that it is apparent that no need was seen in 2007 internally nor by the external auditors. As regards reclassification, the Informant had told FIVA that he had brought up the issue already in 2004. The Company contested and noted that the allegation was not credible as even in 2008 the matter was not brought up by the Informant in an informed manner.

As regards SENA, FIVA wanted to understand why the losses were presented in the 2008 AGM and the Company representatives replied that (a) the amount of the loss was subject to public discussion, (b) the purpose was also to show that the SENA divestment was actually to stop the losses and (c) a shareholder had brought the matter up prior to the AGM. This issue merited no further action by FIVA.

FIVA was also updated, upon its request, of the pending review of the M&A and DD processes within the Company. FIVA noted that the Arapoti and Papyrus disclosure issues that the Company reported to FIVA were not material although the Company could have been more diligent.

FIVA concluded in the meeting that it deemed the Investigations to be sufficient and that (unless new information was uncovered) the matter required no further action from FIVA.

4. The Third Investigation (20 April 2011 - 21 Jul 2011)

Since the fall of 2010 the Informant had apparently approached FIVA making the same or similar complaints and allegations as he had earlier made to the Company.

Further, a Finnish individual (in the following referred to as "[NN]"), a small shareholder of the Company, at and following the Company's AGM 2011 on 20 April 2011, made several complaints and allegations to the Company of serious irregularities and misconduct ascribed to members of the senior management of the Company (the "Complaints"). [NN] based the Complaints on information which he/she said he/she had received from the Informant. The Complaints were made in several letters and/or e-mails addressed to *inter alia* the Chairman of the Board, the General Counsel and a Member of the Board. Most of the issues raised in the Complaints related to matters that had been investigated in the First and Second Investigations since the fall of 2008.

In the Complaints and in the subsequent correspondence [NN] alleged that a number of members of the senior management of Stora Enso, including individuals who participated in the earlier Investigations, were compromised to take part in the conduct of any investigation of the Complaints.

[NN] also stated that the Complaints (in whole or in part) had been submitted to third parties, including the media.

As a result of the Complaints, the Chairman of the Board on 27 May 2011 decided to launch an internal investigation of the allegations made and issues raised in the Complaints. The Investigation was made under the supervision of FAC, assisted this time by the Assistant General Counsel of the Company, so as to exclude from the investigation task force the Company representatives whose acts had been referred to in the Complaints. The FAC decided to appoint Mr. Tomas Lindholm of Lindholm Wallgren and Mr. Mats Welin of Uoti, Sotamaa & Welin, Attorneys-at-law as external legal advisors (jointly "External Counsel") to carry out the investigation work (in cooperation with the Assistant General Counsel). Mr. Welin having not been involved in the earlier Investigations and having had no earlier professional connections with Stora Enso was retained to secure the impartiality and independence of the investigation.

4.1 The Complaints Issues

[NN] had raised various Complaints issues in a number of written submissions, partly overlapping, addressed to certain named individuals. As an initial step of their analysis External Counsel compiled the numerous allegations from [NN]'s various submissions and divided them broadly into four categories as follows:

- (1) allegations that the CEO and members of the senior management team had deliberately withheld and concealed information regarding losses and irregularities from the Board;
- (2) allegations concerning several serious breaches of accounting rules;
- (3) allegations regarding breaches of disclosure rules; and
- (4) allegations of harassment, threatening and illegal termination of the employment of the Informant as a result of him making complaints regarding alleged irregularities and wrongdoings in Stora Enso.

4.2 Investigation measures

As a first step in the Investigation External Counsel attempted to organize a meeting with [NN] to offer him/her the opportunity to substantiate the allegations made by him/her. Despite several attempts to organize a hearing of [NN], he/she refused to participate in any meeting with the investigation team. Therefore, the investigative measures were by necessity limited to the review of documentation and the interviewing of individuals without such further information as the hearing of [NN] might have offered.

The investigation work was carried out mainly through the following action:

- a) by review of the extensive written material compiled in connection with the First and Second Investigations, including the material that was presented to the FIVA at a meeting between the representatives of Stora Enso and FIVA, held on 6 April 2011;
- b) requesting and reviewing comments in writing on allegations made in the Complaints by a number of individuals named in the Complaints; and
- c) interviewing or discussing matters raised in the Complaints with the Company's external auditor, CFO, General Counsel, Head of Internal Audit and Assistant General Counsel.

External Counsel accepted as a starting point for the investigation the findings and conclusions in the First and Second Investigations as had been reported to and not merited further action by FIVA at the 6 April 2011 meeting accounted for above. At said meeting FIVA's representatives stated that they had found the investigation work and reports made by Stora Enso professionally made, and accepted them as such. Accordingly, External Counsel based their Investigation work and their subsequent report on the assumption that the findings and conclusions made in the First and Second Investigation, and as further presented to FIVA, were reliable. External Counsel further concluded that they had not come across anything in their investigation which would lead them to question the validity of this starting point.

4.3 External Counsel's conclusions and recommendations in the Third Investigation

Upon completion of the investigation work, External Counsel submitted a report, dated 30 June 2011, to the FAC for information and as basis for any decisions on further action and/or investigation measures. In their report dated 30 June 2011 External Counsel presented the following conclusions and recommendations to the FAC:

- "(1) Some of the allegations contained in the Complaints are so vague and general in nature that it has not been possible to investigate them further;*
- (2) Most of the Complaint Issues had been investigated earlier in connection with [the First and Second Investigations];*
- (3) We have found no irregularities, accounting error or breach of disclosure rules that have not been identified as such and subsequently reported to FiVa in connection with the earlier [name omitted] investigations;*
- (4) There was no basis to conclude that [Informant] has been subject to any harassment or threat by any members of the senior management of Stora Enso, nor that the termination of his employment would be unlawful;*

Based upon the findings and conclusions made in the investigation, we have the following recommendations:

- (1) Many of the Complaint Issues refer to information having been withheld or concealed from the Board. While we have not identified any instance where this would seem to have been the case, we recommend that also the members of FAC review the Complaint Issues with a view to determining whether any information referred to therein might give reason to suspect that any relevant information might have been so withheld or concealed or that the matter should be explored in further investigations;*
 - (2) The Complaints remain unsubstantiated and we do not see any reason to continue the investigation, unless and until such further information is uncovered which may give reason therefore;*
 - (3) We recommend that FiVa is being kept fully informed about the investigation work, including of the conclusions and recommendations made by us in this Report;*
 - (4) Matters raised in the Complaints may become public through the media and otherwise, and we recommend that FAC consider what measures may be recommendable in view of such eventuality;*
-
- (6) In general, we recommend that FAC maintain readiness to quickly resume the investigation work and/or to take any action without delay as may be necessitated or recommendable following further contacts by [NN]."*

4.4 Subsequent corporate decisions and contacts with FIVA

External Counsel's report referred to in Section 4.3 above was presented to and discussed in a meeting of the FAC on 30 June 2011. The FAC approved the investigation

report and agreed, based on the recommendations of External Counsel, to request the Board members to review the Complaints issues and confirm whether there might be a reason to suspect that any relevant information relating to the Investigation had been withheld or concealed from the Board members, to close further investigations since the Complaints remained unsubstantiated, to update FIVA of the status of the Investigation, to maintain readiness to quickly resume the investigation work as may be necessary following possible further contacts by [NN], and to share the External Counsel's report with the Company's external auditors.

In the week 27 of 2011 the Assistant General Counsel called FIVA and briefed them about the Third Investigation, including its scope, recommendations and conclusions. Subsequently, the Assistant General Counsel informed the FAC and External Counsel about the discussion with FIVA. It was understood that [NN] had kept sending messages to FIVA but had not highlighted any new issues. It was further understood that FIVA felt that the reports of the First and Second Investigation that FIVA had received previously were comprehensive and that no further action in respect of the relevant matters was required by FIVA. In the call FIVA expressed a wish to arrange a meeting with the Company representatives later in August 2011 and to continue an open dialogue with the Company.

On 21 July 2011 the Board received a report from the FAC on the investigation carried out by the FAC, including the report of 30 June 2011 of the External Advisors and the minutes of the FAC meeting of same date. The Board was satisfied with the investigation carried out by the FAC as well as the FAC's conclusions and on such basis subsequently concluded that there was no need for any further action in the matter.

5. The Fourth Investigation (November 2011 – December 2012)

5.1 Background

In November 2011 the Informant started sending e-mails, first to the Company's CFO and then to various other officers of the Company, in which he mainly repeated his earlier allegations that had been dealt with in the earlier Investigations adding some new features mainly relating to the accounting treatment of the Company's US assets and threatened to report the alleged wrongdoings of the Company to the US Securities Exchange Commission ("SEC") unless the Company paid him a compensation.

The General Counsel, on 17 November 2011, responded to the Informant making it clear that the Company will not pay him any money in exchange for his silence and that he needs to realize that there is nothing to be settled. However, the communication and threats by the Informant continued. The Company kept FIVA informed of this development.

The Company, once again, undertook to examine the allegations made by the Informant and made preparations to mobilize readiness to defend against any action possibly resulting from the Informant's threats.

The General Counsel also contacted US counsel Debevoise & Plimpton to seek their advice on matters relating to potential US legal and regulatory issues. US Counsel were provided the files in the matter, including the reports of the First, Second and Third

Investigation, and were asked to advise the Company the extent, if any, to which the allegations made by the Informant over the years might raise US legal or regulatory issues.

On 20 January 2012 a meeting with the representatives of FIVA was held at the Company to discuss the latest developments.

On 25 January 2012 one of the External Counsel met with the Informant in Helsinki for the purpose of receiving further information about his allegations. In addition to providing such information at the meeting, the Informant repeated his request for compensation for "settling the matter" and indicated that he had consulted lawyers in the US and that he had had preliminary contacts with the SEC. He stated that he was waiting for a "letter of immunity" from the SEC, upon the receipt of which he would make a complaint to the SEC.

The meeting with the Informant and other developments in the matter were reported to the FAC in its meeting on 7 February 2012. The FAC Chairman and the General Counsel gave a status update to the Board in the Board meeting on 8 February 2012.

On 13 February 2012 a meeting between FIVA and the Company took place. The purpose of the meeting was for FIVA to review the report of the Third Investigation and to receive an update on the latest developments. The FIVA representatives, upon review of the report of the Third Investigation, presented no comments or requests to the Company. They also informed that no formal investigation of any of the matters raised in the Company's investigations was pending with FIVA.

In March 2012 lawyers of Debevoise & Plimpton visited Finland to interview representatives of Stora Enso, the Company's external auditors and Finnish external counsel for purposes of completing their assessment of the potential US legal and regulatory issues that might arise from a possible complaint by the Informant.

Upon their visit to Finland, Debevoise & Plimpton completed their review and analysis and, on 21 March 2012, issued a memorandum addressed to the Company's General Counsel setting out their advice to the Company on the matters.

5.2 Issues reviewed in the Fourth Investigation

Based on the recommendations of Debevoise & Plimpton in their 21 March 2012 memorandum, a further review was conducted by the Company's Finnish external counsel Lindholm Wallgren and Roschier (jointly "External Counsel"). The review covered the following three topics, all of which at least partly had been subject to review in the earlier Investigations:

Topic 1: Stora Enso North America ("SENA")

- Allegations that Stora Enso would have omitted necessary impairments of SENA in its books (topic 1a)
- Allegations that in the 2008 Annual General Meeting, Stora Enso's CEO would have given an incorrect report on the cash losses incurred in the North American business (Topic 1b)

Topic 2: 2007 Arapoti Partial Disposal

- Allegations that Stora Enso made erroneous bookings of its loss on the 2007 partial disposal of Arapoti in Brazil and/or that Stora Enso tried to avoid recognizing losses in said transaction.

Topic 3: Equity Movement and Injections between Swedish and German Subsidiaries

- Allegations concerning equity transfers from Stora Enso's subsidiaries in Sweden, Stora Kopparsbergs Bergslags AB ("SKBAB") and Stora Enso AB ("SEAB"), especially regarding the booking of such equity transfers to Stora Enso as profit by Stora Enso, as well as a related allegation of an inflation of equity in subsidiaries through back and forth equity transfers between said subsidiaries and Stora Enso Beteiligungen GmbH ("SEB").

5.3 Findings in the Fourth Investigation

External Counsel reported their findings on the Fourth Investigation in their report of 3 December 2012. The relevant issues are discussed in the following topic by topic.

5.3.1 Topic 1a – Alleged omission of impairments in SENA

Stora Enso acquired SENA in 2000. Based on the interview of a former employee of the Company's finance department, there seems to have been discussions on a possible need for impairment of SENA already in 2001. However, a first impairment was made only in 2002. The 2002 impairment seems to have been properly made in all respects with indications of an extra margin to avoid a need for further impairment within a short period of time.

In 2003, [name of entity omitted here], which provided background information for valuation of assets for purposes of impairment tests, was replaced by [name of entity omitted here]. The former employee referred to above indicated that he was sceptical to the assumptions made by [name of entity omitted here] in its valuation models. It cannot be excluded that, if the calculations made in 2003 would have been based on models supplied by [name of entity omitted here], there would have been a need for further impairment in SENA. However, according to another former employee at the Company's finance department, the change to [name of entity omitted here] was justified for reasons unrelated to the SENA impairment, such as the more extensive service provided by [name of entity omitted here]. This individual also indicated that there was a high degree of trust within Stora Enso's management in the information provided by [name of entity omitted here]. It was not possible in the Investigation to conclusively determine the reason for changing [name of entity omitted here] to [name of entity omitted here] and whether a desire to avoid making further impairments in 2003 may have at least partially affected the decision to change the service provider. We note, however, that the external auditors of Stora Enso were involved throughout the process and that, according to the impairment calculations actually made, there was no need for any impairment on SENA in 2003.

In 2004 the impairment testing was affected by detailed questioning on the impairment testing procedures by a member of the FAC, who challenged several of the

assumptions made in the impairment testing process. Based on the interviews of a present and a former employee of the Company, these challenges, if anything, seem to have lead to increased efforts by the management to confirm the reliability of the calculations made and to give comprehensive responses to the questions raised. No impairments on SENA were made in 2004, and there is no reason to conclude that such impairments should have been made.

In 2005 Stora Enso made a change in its organization of Cash Generating Units (CGUs), the level at which impairment testing was made. Following the reorganization, SENA was no longer reported as a separate geographic area-based unit, but was split and combined with the other product-based CGUs. The change was justified *inter alia* by the fact that most of Stora Enso's CGUs were product-, not geography-based. Thus, keeping SENA as a separate CGU deviated from the general principle of organizational reporting. Stora Enso's then current auditors were aware of the considerations relating to the reorganization of the CGUs and expressed no objections to the reorganization.

Despite the reorganization of the CGUs, the Stora Enso accounting team still prepared separate unofficial impairment calculations for SENA as if it would have been a separate CGU. According to a former employee, the likely explanation for preparing these calculations despite the abortion of the old SENA CGU was the easy accessibility of existing templates and the fact that the impairment calculations are always based on the compilation of calculations on smaller units, typically individual mills. Thus, separate calculations of *e.g.* the value of the North American fine paper business were readily available.

The 2005 draft calculations made on the basis of the SENA parts of the product-based CGU:s seem to indicate that, in the absence of the organizational change of the CGUs that had been implemented in 2005, an impairment need of between USD 263-660 million would have existed on the former SENA reporting unit. However, according to the impairment calculations made under the new CGU structure implemented in 2005, no impairments were necessary.

Based on a review of the FAC minutes it seems that the FAC never made a formal resolution on the 2005 impairment calculations, as no meetings of FAC seem to have been held between September and December 2005. No conclusive explanation for why no FAC meetings were held during the relevant period and why the impairment calculations for 2005 were not resolved by the FAC was found. The most plausible explanation provided was that various changes of the financial management in the Stora Enso organization, including the change of the CFO, may have led to a failure to convene FAC meetings in the autumn of 2005 by oversight.

The impairment calculations made in 2006 and decided by the FAC were very similar to the calculations made in 2005, and would have resulted in a similar impairment for SENA, had SENA still been reported as a separate CGU as before 2005. However, the SENA parts were integrated into and reported as part of the product based CGU's as from 2005. There was no reason based on the Investigation to conclude that there would have been an actual impairment need in respect of SENA in 2006.

After the appointment of Jouko Karvinen as Stora Enso's new CEO in 2007, SENA was reversed back as a separate CGU, as we understand, partly in anticipation of an expected disposal of the US operations. In the reorganization, part of the goodwill originally created in the acquisition of SENA, which in the 2005 reorganization was transferred to the product-based CGUs, was left in such (now primarily European-based) CGU:s instead of being transferred back to SENA. The treatment of the goodwill seems to have been subject to a detailed discussion, involving the external auditors. It seems that Stora Enso's management would have initially preferred to transfer the goodwill back to SENA, but eventually accepted the external auditors recommendation to leave it in the product-based CGU. This indicates to us that the treatment of goodwill in the CGU reversal of SENA was properly made.

The FAC minutes regarding the 2007 CGU reorganization indicate that no real integration of the SENA business with the primarily European based CGU:s or other real benefits had been achieved through the 2005 CGU reorganization. This may contribute to an impression that the 2005 reorganization may at least partly have been based on a desire to avoid or postpone impairments on SENA. However, we consider that the requirements under the applicable accounting standards to implement the 2005 CGU re-organization were met. In concluding this we have considered *inter alia* the fact that the integration of SENA into the product-based CGUs was in line with the general reporting regime of Stora Enso, and that it was also extensively discussed with and not objected to by the Company's then current external auditors.

SENA was sold at the end of 2007. For this reason, no impairment calculations on SENA or other CGUs including as a substantial part any of the North American operations were made in 2007.

5.3.2 Topic 1b – alleged misrepresentation of SENA total loss at the AGM 2008

At Stora Enso's AGM 2008, following the sale of SENA which took place at the end of 2007, the CEO Jouko Karvinen gave a presentation on the losses of Stora Enso that had resulted from the investment in SENA. According to the presentation, Stora Enso had suffered a total "modified cash loss" of some EUR 1,998 million on the investment. The Company had no statutory obligation to present such information to the Annual Meeting, but it was supplementary to the information given in the annual and interim reports of the Company.

The calculations on the loss presented by the CEO were prepared by [name/position omitted here] and confirmed by the FAC. The review indicated that different alternative ways to present the loss had been made to the FAC from which the FAC selected the one to be presented by the CEO to the AGM. This procedure seems to significantly undermine the credibility of the allegation of the Informant that the loss calculation would have been made in an intentionally erroneous or misleading form at the request of the CEO. It is also hard to see any motive for a newly elected CEO with no part in the actions of the previous management, to understate the losses that had incurred prior to his arrival.

It is understood that no explicit guidance (based on IFRS or Finnish GAAP) exists on how to calculate the aggregate losses for the total period of a particular investment. For this reason, it seems that there is no single correct way to make such calculations.

When being interviewed, the [name/position omitted here] at that time explained that the calculation was intended to be a relatively simple and straightforward operative cash flow calculation. Unrealized gains on exchange rate hedging seem to have been included in the calculation as the figures were deemed reliable and with the calculation shown in euro. Transformation of US dollar figures without taking into account the exchange range hedges could also have been questioned. Exclusion of the cost of capital in the calculation seems to have been justified by the difficulty of giving any reliable or straightforward measure on average cost of capital for the investment.

5.3.3 Topic 2 – Arapoti Partial Disposal

Stora Enso originally accounted for an EUR 90 million fixed asset impairment in 2007 due to the Arapoti partial disposal, whereas it should have recorded the difference in goodwill and ultimately as a loss on disposition. As described above in Section 2.10.2, following the completion of the Second Investigation, Stora Enso reclassified the fixed asset impairment as a goodwill impairment and reported the misclassification to FIVA. The incorrect accounting treatment was thus corrected and did not have an effect on Stora Enso's net income.

There was no indication that the error would have been caused by a deliberate attempt to improve Stora Enso's accounts. Neither was there any indication that the accounting treatment in any way would be connected to any tax fraud or that Stora Enso would otherwise have committed or contributed to any tax fraud, as had been alleged by the Informant.

5.3.4 Topic 3 – Equity Movements in Swedish and German Subsidiaries

The equity movements in the Company's Swedish and German subsidiaries had already been the subject of an earlier review in the report on the First Investigation to Stora Enso's Board dated 3 February 2009. In such report it was concluded that, while the majority of the relevant transactions seem to have been properly booked, it is possible that either a reclassification (from income to capital reduction) and/or impairment testing in some respects should have been made and also that it could not be excluded that such testing should have resulted in some impairment.

However, it had also been concluded in the First Investigation that even if impairment testing had been properly made each year, at least no significant impairments of assets would have been necessary. Further, the report also stated that it was reasonable to conclude that, even where reclassifications and/or impairments should have been made, any possible corrections to the relevant annual accounts would not have resulted either in:

- a) any distributions of assets in excess of amounts that could be lawfully distributed; or
- b) any overstatement of any assets that would have any adequate relevance for an investor or any other third party having taken place.

5.4 The Fourth Investigation: overall conclusions

External Counsel, in the final report on their review on 3 December 2012, stated that they had no reason to believe that any member of the management of Stora Enso would have been guilty of any intentional misconduct or that any other errors subject to any sanctions or liability under Finnish law or necessitating the restatement of any accounts of Stora Enso had been made.

While the review had revealed some indications that various measures relating to SENA, such as the reorganization of the CGUs in 2005, may have been partly driven by a desire to avoid or postpone a possible impairment on the SENA business, External Counsel concluded that the 2005 CGU reorganization had been made in conformity with the requirements of the applicable accounting regulations, basing their view *inter alia* on the fact that the resulting CGU structure with the SENA parts integrated in the product-based CGUs was in line with the general reporting regime of Stora Enso, and that the reorganization had been implemented following extensive discussion with and not objected to by the then external auditors.

The review also revealed that FAC seems to have omitted to formally approve the impairment calculations for 2005. While no conclusive explanation for this omission was identified, the most likely reason seems to have been a failure to bring the matter to FAC's attention by oversight due to pending reorganizations following changes in the finance management, including the CFO position. In any event, as the reorganization implemented earlier in 2005 was in conformity with the applicable legal requirements, there seems to have been no need to make an impairment in the year 2005, as shown by the impairment calculations made, although not specifically approved by the FAC and the Board.

The calculation of the total losses incurred as a consequence of the investment in SENA presented to the Annual General Meeting in 2008 by the CEO and prepared by the [name/position omitted here], seemed to show a lower amount of losses than some alternative ways to present the losses considered by FAC. However, absent any indications of a deliberate attempt to mislead the shareholders and absent applicable rules governing the proper calculation of such losses which was made and disclosed on a voluntary basis, there was no reason to conclude that the presentation would have been inaccurate or inappropriate in any respect.

The review did not indicate that the transactions involving the Arapoti mill in 2007 would have involved any incorrect accounting treatment in addition to the errors which Stora Enso had already corrected and reported to FIVA following the Second Investigation.

Neither did the review give any reason to revise the views expressed in the report on the First Investigation (discussed under Section 2 above) either regarding the various transactions made by Stora Enso's Swedish and German subsidiaries or otherwise.

Hence, in the view of External Counsel the Fourth Investigation had not revealed any inaccuracies, errors or wrongdoings that required any remedial or other further action on the part of the Company, except reporting the outcome to FIVA.

The General Counsel reported to the FAC in its meeting of 10 December 2012 that the final report relating to the Fourth Investigation had been prepared and did not recommend any further action to be taken. It was recorded in the FAC meeting minutes that the Assistant General Counsel will inform FIVA accordingly.

Subsequently, in December 2012 the Assistant General Counsel of Stora Enso informed FIVA that the Company had concluded the Fourth Investigation not meriting for any further action to be taken by the Company.

6. The roles of the various Company bodies and the supervisory authority (FIVA)

The corporate body ultimately responsible for all internal investigations conducted by the Company has been the Board acting partly through its Financial and Audit Committee (FAC). According to its Charter, the FAC's members are independent and not affiliated with the Company and support the Company's Board in maintaining the integrity of the Company's financial reporting and the Board's control functions.

The Company's Legal and Internal Audit functions have, in particular, been responsible for the proper conduct of the Investigations, except for the Third Investigation, where the persons responsible for the respective function were implicated by the allegations subject to investigation. Consequently, as described in Section 4. above, the Assistant General Counsel, assisted by the External Advisors, was responsible for the conduct of the Third Investigation.

The minutes of the Board and the FAC provide a record of the manner in which the Investigations have been handled in the respective bodies and show that the various allegations and issues presented in connection with the four Investigations have been subject to investigative measures. The Company's Legal and Internal Audit Functions have kept the FAC and the Board informed of the parts of the Investigations that they have participated in or coordinated. The CEO and the CFO of the Company, as the members of the management of the Company ultimately responsible for the proper conduct of the Company in respect of the matters subject to the Investigations, have not participated in the Investigations (except as interviewees), nor have they received copies of the reports prepared or participated in the FAC or Board meetings when the issues subject to the Investigations have been discussed.

As a Finnish public limited company Stora Enso's financial reporting is supervised by FIVA, i.e. FIVA monitors the Company's compliance with the International Financial Reporting Standards. As has been described above, the Company, to assist FIVA in its supervisory role, has been proactively in contact with FIVA throughout the investigations, has provided FIVA with information on the facts and issues subject to the Investigations and in each stage informed FIVA of the steps taken and to be taken.

On the basis of the feed-back received from FIVA, it is the Company's impression that FIVA has considered that the Company has conducted the investigations in a proper and credible manner and FIVA has not found any reason to open any further investigation with respect to the Company in the matter.

7. Issues around the Informant's employment

One of the issues under the Third Investigation was whether the termination of the Informant's employment in the spring 2010 was lawful. As described in Section 2 above, the Informant in November 2009 reported new allegations concerning several accounting, disclosure and HR issues and irregularities to the Company and some of its officers. He also voiced his dislike of various officers of the Company. In addition to sending several e-mails to the Company's CFO on such issues, the Informant sent an e-mail to the Company's CEO presenting partly unspecified threats to cause damage to the CEO, other individuals and the Company, apparently attempting to engage the Company in a negotiation over claims that the Informant had made to the CEO and/or to the Company. The correspondence seemed to have been prompted by an appointment in the Company's Group Accounting that the Informant could not accept.

The Company took the situation seriously. Having obtained advice from external counsel, and on the basis of such advice, the Company on 2 March 2010 terminated the Informant's employment contract to end on 10 July 2010. The cause for the termination was the Company's loss of trust and confidence in the Informant as its employee as demonstrated by statements made by the Informant in the communication referred to above. Hence, the termination was unrelated to the fact that the Informant had resorted to the Company's complaint reporting procedure.

The Informant contested the grounds of termination and on 29 June 2012 filed an application for a summons with the District Court of Helsinki, claiming compensation for the damages caused by the (allegedly unlawful) termination of his employment contract. Because of the large-scale campaign that the Informant had launched against the Company and its top management, the Board, as part of its monitoring of the Investigations resulting from the Informant's complaints also monitored the related matter of his employment. On 20 July 2012 the Board took note that, while the Company's position had been and still was that the termination was legal in all respects, the Company could not, based on external legal advice, exclude the possibility that the Informant could prevail in its claim and that full scale litigation would be lengthy and generate high legal costs for the Company regardless of the outcome.

The Board therefore agreed to take part in settlement negotiations initiated by the Informant. The Board, however, made a point of settling the employment dispute without regulating any past or future complaints by the Informant against the Company or its officers, and the Informant expressly remained free to pursue those complaints at his discretion. The settlement finally reached was therefore unrelated to the matters addressed in this Report.

By letter of 24 September 2012 to the District Court of Helsinki the Informant withdrew the application for summons before served on the Company. By decision of 27 September 2012, the District Court dismissed the case and the dispute over the termination of the Informant's employment was thus closed.

8. Summary and conclusion

By way of summary and conclusion of this Report, we further state the following:

- 8.1 In revisiting the reports of the Investigations, the extensive written documentation generated in relation thereto and all the allegations subject to investigation and review, we have not come across anything that would give us reason to reassess any of the conclusions contemporaneously drawn, nor have we come across any matters that in our view should, but have not been, subjected to review in order for the Company to act in accordance with the applicable standard of prudence and diligence.
- 8.2 We are also of the view that the Company's FAC and Board have been properly and timely informed by the Legal and the Internal Audit and, where relevant, by other members of the management, of the various complaints and allegations made and that the FAC and the Board, in light of the information that they have received, have taken the decisions and other action that can reasonably be expected by them to fulfill their fiduciary duties.
- 8.3 While the Investigations have been carried out under assumptions and qualifications which have differed as between the Investigations, and using different methodologies, and also varying in depth, all allegations and complaints made have, in our view, been reviewed and examined, including together with independent external experts, with such degree of thoroughness and expert support, as can reasonably be expected from a company properly discharging its duty of diligence and prudence under the prevailing circumstances. The Company has also taken the appropriate measures to ascertain that those members of its management that have been implicated by the complaints and allegations have not taken part in the investigations of these.
- 8.4 The Investigations have been carried out in consultation with the Company's external auditors. Thus the auditors have been consulted and interviewed, where necessary, throughout the investigatory work, and they have also participated in such FAC meetings where the matters have been discussed.
- 8.5 Stora Enso, as a Finnish listed company, is subject to supervision by FIVA in its operations on the Finnish securities' market. As described in this Report, Stora Enso has throughout the different Investigations kept FIVA properly informed. The Company has also submitted the reports on the First, Second and Third Investigation to FIVA and has made available to FIVA all its other relevant reports and materials. The Fourth Investigation report called for no remedial action by the Company, as also informed by the Company to FIVA. To the Company's understanding, FIVA has thoroughly reviewed the investigation materials and has in its discussions with the Company confirmed that it considers the Investigation reports to be professionally made and has not considered it necessary to open any further investigations against Stora Enso to further examine any of the complaints and allegations in question.
- 8.6 There are four (4) issues, where the Investigations have revealed accounting or disclosure practices that could possibly be argued not to comply in all respects with the accountancy or disclosure regimes contemporaneously applicable. However, and as discussed at the end of this Section 8.6, it can be reasonably concluded that these issues seem either not to have been material or that adequate action have been taken in respect of the issue. The four issues are the following:
- a) **Impairments and reclassifications.** In the summary of the report on the First Investigation it has been stated that:

"With regard to Issue 1, Issue 2, Issue 3 and Issue 4, we have concluded that, while the majority of the relevant transactions seem to have been properly booked, it is possible that either reclassification (from income to capital reduction) and/or impairment testing in some respects should have been made. We also cannot exclude the possibility that, following a properly conducted impairment testing, some impairments of the assets in the Parent Company Accounts should have been made.

However, on the basis of the actual impairments planned for 2008, the retroactive calculation of impairments for 2007, as well as the analysis of asset valuations made in arrears for 2003, it would seem that, even if impairment testing had been properly made each year, at least no significant impairments of assets in the Parent Company Accounts would have been necessary. [bolded here] Further, we consider it reasonable to conclude that, even where reclassifications and/or impairments should have been made, any possible corrections to the relevant annual accounts would not have resulted either in:

- a) any distributions of assets in excess of amounts that could be lawfully distributed having taken place as a result of any of the alleged omissions or incorrect bookings; or*
- b) any overstatement of any assets that would have any adequate relevance for an investor or any other third party having taken place, as (i) the Group Accounts for all of the relevant years seem to have been correct in all material respects relevant to the Review and (ii) the "dividend cover" seems to have been sufficient during all of the years covered by the Review."⁴*

- b) The reclassification of equity components.** In Section 2.10.2 above it is stated that:

"The error in the SEO Parent Company Accounts was significant in the sense that, under the Finnish Companies Act in force in 2009, the distributable assets of a company are determined solely on the basis of parent company accounts. Thus, the reclassification of equity of the Parent Company Accounts led to a reduction of Stora Enso's distributable equity by the full amount of own shares purchased. As the distributable equity according to the Finnish Companies Act (as in force since 2006) is determined only on the basis of the Parent Company Accounts, the reclassification of the Group Accounts had no such effect. Accordingly, as the reclassification did not affect the total amount of equity reported but solely its allocation into distributable and non-distributable equity, the effect of the reclassification in the Group Accounts was of less significance.[Footnote omitted]

On the day (5 February 2009) following the day on which the Board had received the External Counsel memorandum referred to in Section 2.10.1 above, the Board in resolving on the closing of the Company's books for the financial year 2008, also decided on a reclassification of certain equity components as proposed by External Counsel in the memorandum and issued a stock exchange release announcing such reclassification --- " [bolded here]

⁴ For the effect of the equity reclassification on the Group Accounts see Section [2.10.2] above and Section 8.6.c) below.

- c) **Possible violation of IAS 24 and related party disclosure.** In the Second Investigation the inaccuracies stated in the Company's letter to FIVA 19 February 2010 were identified, namely:
- (i) *"a possible violation of IAS 24 by not including a related party disclosure in the 2008 financial statements relating to the sale of Papyrus; and*
 - (ii) *incorrect disclosure of impairment on fixed assets and goodwill on the Arapoti Mill in the 2007 financial statements",*

Neither of these had any impact on the profits or financial position of the Company as stated in its financial statements. Both of them were reported to FIVA.

- d) **SENA impairments.** The report on the Fourth Investigation, as described in Section 5.4 above, concluded that:

"While the review had revealed some indications that various measures relating to SENA, such as the reorganization of the CGUs in 2005, may have been partly driven by a desire to avoid or postpone a possible impairment on the SENA business, External Counsel concluded that the 2005 CGU reorganization had been made in conformity with the requirements of the applicable accounting regulations, basing their view inter alia on the fact that the resulting CGU structure with the SENA parts integrated in the product-based CGUs was in line with the general reporting regime of Stora Enso, and that the reorganization had been implemented following extensive discussion with and not objected to by the then external auditors.

The review also revealed that FAC seems to have omitted to formally approve the impairment calculations for 2005. While no conclusive explanation for this omission was identified, the most likely reason seems to have been a failure to bring the matter to FAC's attention by oversight due to pending reorganizations following changes in the finance management, including the CFO position. In any event, as the reorganization implemented earlier in 2005 was in conformity with the applicable legal requirements, there seems to have been no need to make an impairment in the year 2005, as shown by the impairment calculations made, although not specifically approved by the FAC and the Board.

Hence, in the view of External Counsel the Fourth Investigation had not revealed any inaccuracies, errors or wrongdoings that required any remedial or other further action on the part of the Company, except reporting the outcome to FIVA."

It can therefore be concluded, that the four (4) issues referred to in Section 8.6 a) - d) regarding possible non-compliance by the Company with applicable accounting or disclosure regimes have either (i) not had a material impact on its financial statements or market disclosure or (ii) have been remedied by the Company, and have (iii) in all instances been reported to FIVA as the supervisory authority of the securities market. The fact that FIVA has not further reacted to any of the information provided to them allows for the conclusion that FIVA has considered all the matters having been properly dealt with by the Company and remedied where possible.

In any event, as significant impairments on fixed assets, goodwill and shares (in the amount of MEUR 740 in the Group Accounts and MEUR 1,280 in the Parent Company Accounts) were made in the 2008 financial accounts of Stora Enso, it is reasonable to conclude that in the very unlikely event of any possible overstatements of assets resulting from the issues discussed in this Report, they have been corrected at the latest when the impairments were made in the 2008 financial accounts.

- 8.7 Based upon the above it is our view that the Company and its various bodies have at all instances in respect of the events accounted for hereinabove (i) taken the action required by them to comply with their fiduciary duties including, in particular, to determine with all reasonable means, whether, and to what extent, the various complaints and allegations have been founded in substance, and (ii) have, where possible and called for, taken the necessary action to remedy any incorrect treatment of an accounting or disclosure issue.
- 8.8 Finally, we recommend that copies of this Report be sent to the Company's external auditors and to FIVA.

Submitted in Helsinki, on 4 October 2013.

By 

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By 

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By 

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