

Company

Stora Enso's Annual Report 2006 comprises three separate booklets



- Letter to shareholders
- Strategy and actions in 2006
- Divisional presentations
- Board of Directors and management



- Financial statements and notes
- Report on operations
- Risk management
- Capital markets



- Sustainability governance, stakeholder engagement, targets and performance
- Sustainability in the value chain
  - raw materials and suppliers
  - the Group
  - markets

Printed copies of the report may be ordered through our website at [www.storaenso.com/order](http://www.storaenso.com/order) or by contacting any of the corporate offices (see back cover).

## DIVIDEND AND AGM INFORMATION

### Payment of dividend

The Board of Directors proposes to the Annual General Meeting (AGM) that a dividend of EUR 0.45 per share be paid for the fiscal year ending 31 December 2006.

Dividends payable on VPC-registered shares will be forwarded by VPC and paid in Swedish krona. Dividends payable to ADR holders will be forwarded by Deutsche Bank Trust Company Americas and paid in US dollars.

### Dividend Policy

- Strive to pay stable dividends linked to the long-term performance
- One half of net profits over a business cycle

### Annual General Meeting

The AGM of Stora Enso Oyj will be held at 16.00 (Finnish time) on Thursday, 29 March 2007 at the Marina Congress Center, Katajanokanlaituri 6, Helsinki, Finland.

## AGM AND DIVIDEND CALENDAR FOR 2007

19 March	Record date for AGM
29 March	Annual General Meeting (AGM)
30 March	Ex-dividend date
3 April	Record date for dividend
17 April	Dividend payment effected

For more details, see Information for Shareholders on the back cover

## CONTACTS

### Kari Vainio

Executive Vice President, Corporate Communications  
Tel. +44 20 7016 3140  
Fax +44 20 7016 3208  
Stora Enso International Office,  
9 South Street, London W1K 2XA, UK  
[kari.vainio@storaenso.com](mailto:kari.vainio@storaenso.com)

### Keith B Russell

Senior Vice President, Investor Relations  
Tel. +44 20 7016 3146  
Fax +44 20 7016 3208  
Stora Enso International Office,  
9 South Street, London W1K 2XA, UK  
[keith.russell@storaenso.com](mailto:keith.russell@storaenso.com)

### Ulla Paajanen-Sainio

Vice President, Investor Relations and Financial Communications  
Tel. +358 2046 21242  
Fax +358 2046 21307  
Stora Enso Oyj, P.O. Box 309,  
FI-00101 Helsinki, Finland  
[ulla.paajanen-sainio@storaenso.com](mailto:ulla.paajanen-sainio@storaenso.com)

## Stora Enso in brief

Stora Enso is an integrated paper, packaging and forest products company, producing publication and fine paper, packaging board and wood products – all areas in which the Group is a global market leader.

Stora Enso's sales totalled EUR 14.6 billion in 2006. The Group has some 44 000 employees in more than 40 countries on five continents. Stora Enso has an annual production capacity of 16.5 million tonnes of paper and board and 7.4 million cubic metres of sawn wood products, including 3.2 million cubic metres of value-added products. Stora Enso's shares are listed in Helsinki, Stockholm and New York.

Stora Enso serves mainly business-to-business customers through its own global sales and marketing network. A global presence provides local customer service. Customers include publishers, printing houses and merchants, as well as the packaging, joinery and construction industries – and are mainly concentrated in Europe, North America and Asia. As Stora Enso moves into the future, the Group is focusing on expanding its operations in new growth markets in China, Latin America and Russia.

The Group has production facilities in Europe, North and Latin America, and Asia. Modern production capacity, combined with efficient raw material and energy sourcing and efficient processes, ensure excellent continuity of production.

Stora Enso is committed to sustainability. Economic, environmental and

social responsibility underpins our thinking and our approach to every aspect of doing business. The Group builds accountability into its operations by being transparent and engaging in

open dialogue with its stakeholders. Group-wide targets and clear governance are used to monitor and measure how well Stora Enso performs in terms of sustainability. ●



Key figures	2005	2006
Sales, EUR million	13 187.5	14 593.9
Operating profit, EUR million	-59.8	623.8
excluding non-recurring items, EUR million	357.5	757.5
% of sales	2.7	5.2
Profit before tax and minority interests, EUR million	-144.2	631.8
excluding non-recurring items, EUR million	273.1	602.5
Net profit for the period (attributable to Company shareholders), EUR million	-111.1	585.0
Capital expenditure, EUR million	1 145.3	583.4
Interest-bearing net liabilities, EUR million	5 084.1	4 233.9
Capital employed, EUR million	11 677.9	11 331.8
Return on capital employed (ROCE), %	-0.5	5.4
excluding non-recurring items, %	3.3	6.6
Return on equity (ROE), %	-1.4	7.7
Debt/equity ratio	0.70	0.54

	2005	2006
Earnings/share, EUR	-0.14	0.74
diluted, EUR	-0.14	0.74
excluding non-recurring items, EUR	0.28	0.55
Cash earnings/share, EUR	1.65	2.34
diluted, EUR	1.65	2.34
excluding non-recurring items, EUR	1.70	1.94
Dividend/share, EUR	0.45	0.45*
Equity/share, EUR	9.16	9.89
Payout ratio, %	161	82*
Market capitalisation, EUR million, 31 Dec.	9 304	9 528
Deliveries of paper and board, 1 000 tonnes	14 150	14 618
Deliveries of wood products, 1 000 m <sup>3</sup>	6 741	6 572
Average number of employees	46 166	45 631

\*Board's dividend proposal

STORA ENSO IN BRIEF



Stora Enso is an integrated paper, packaging and forest products company, producing publication and fine paper, packaging board and wood products – all areas in which the Group is a global market leader.

- **KEY FIGURES FOR 2006 . . . . . 1**  
 Stora Enso's sales totalled EUR 14.6 billion in 2006. Key figures for 2006, excluding non-recurring items: operating profit EUR 757.5 million (5.2% of sales), profit before tax and minority interests EUR 602.5 million, earnings per share EUR 0.55 and cash earnings per share EUR 1.94. Cash flow after investing activities was EUR 1 309.5 million.
- **DIVISIONS IN BRIEF . . . . . 4-5**



A summary of the press and stock exchange releases and interim reviews published by Stora Enso during 2006 can be found at [www.storaenso.com/press](http://www.storaenso.com/press)

STRATEGY

- **LETTER TO SHAREHOLDERS . . . . . 6-7**
- **MISSION, VISION, VALUES AND STRATEGY. . . . . 8-9**
- **PROFIT 2007 AND ASSET PERFORMANCE REVIEW. . . . . 10-11**  
 Stora Enso's profit improvement programmes are aimed at securing a competitive European production base for the Group. Good financial performance in the mature markets of Europe and North America is important to enable Stora Enso to expand in new growth markets.  
 The Profit 2007 programme has proceeded well and the initial target has been reached. The Group achieved an improvement of EUR 310 million by the end of 2006.  
 Stora Enso completed divestments and closures in accordance with the Asset Performance Review during 2006 and announced plans to close two mills to be completed in 2007.
- **STRATEGY IN ACTION IN 2006. . . . . 12-13**



*In China, Stora Enso has set up a joint venture with Shandong Huatai Paper in 2006. Its publication paper machine is expected to start up in late 2007.*

- **COMPETITIVE ENVIRONMENT IN 2006 . . . . . 14-15**  
 The growth in demand for printing and writing paper recovered slightly in 2006. Coated woodfree paper and SC paper led the way, with almost 4% growth, whereas uncoated woodfree and coated mechanical advanced by only 1%.  
 Growth was fastest in Eastern Europe, China and Latin America. Growth in North America was flat and demand in Western Europe was modest.



## THE GROUP

### ● PUBLICATION PAPER . . . . . 16-19

Stora Enso became the sole producer of LWC in Latin America in 2006 through the acquisition of a paper mill, a sawmill and plantations in Brazil from International Paper. The paper mill is Stora Enso's first paper production facility in Latin America and establishes the Group's publication paper business there.

### ● FINE PAPER . . . . . 20-23

North America is the world's largest paper market and around 40% of Stora Enso's coated fine paper capacity is located at two sites in the heart of the Midwest. A large proportion of the North American printing market lies within some 500 kilometres of the Group's mills. Stora Enso is looking to continue increasing its coated fine paper business in the USA, especially in the Midwest.

### ● PACKAGING BOARDS . . . . . 24-27

Stora Enso has started building its third corrugated packaging plant in Russia, at Lukhovitsy, southeast of Moscow. The market for corrugated packaging is growing rapidly in Russia and Eastern Europe. Transport packaging is growing at 5-10% annually, while corrugated sales packaging is growing even faster.



### ● FOREST PRODUCTS . . . . . 28-31

The operating environment for Stora Enso Timber has remained challenging and overall profitability has been below-target. A turnaround programme launched in 2005 has resulted in improved operating profit, through selective asset restructuring and improved efficiency at mills, a reorganised sales network and aggressive cost structure improvements.

### ● HUMAN RESOURCES . . . . . 32-33

## GOVERNANCE

### ● CORPORATE GOVERNANCE . . . . . 34-39

### ● BOARD OF DIRECTORS . . . . . 40-41

### ● MANAGEMENT GROUP . . . . . 42-44

Jukka Härmälä will step down as CEO on 29 March 2007 and will be succeeded by Jouko Karvinen.

Jouko Karvinen brings a wealth of global experience and a strong commitment to innovation. He has a proven track record of improving profitability in the businesses that he has managed, and delivering results through acquisitions, operational improvements, innovation and building customer loyalty.

Born in 1957, Jouko Karvinen holds a Master of Science degree in Electronics and Industrial Economics. He worked in industrial automation for 25 years and, more recently, has been a senior executive in the health care technologies business.

## SHARE PERFORMANCE AND FINANCIAL SUMMARY

### ● STORA ENSO IN CAPITAL MARKETS . . . . . 45-49

The new Debt Investors section contains information on the Group's funding and rating strategy, and debt structure.

Stora Enso's IR activities during 2006 included an Investor Day at Kvarnsveden Mill in Sweden, where the site's new paper machine 12 has been operational for about a year.

### ● FINANCIAL SUMMARY . . . . . 50-54

For complete information on Stora Enso's financials, see the separate Financials 2006 report or visit [www.storaenso.com/investors](http://www.storaenso.com/investors).

### ● AUDITOR'S REPORT . . . . . 55

## APPENDICES

### ● MAJOR STRUCTURAL CHANGES . . . . . 56

### ● INFORMATION FOR SHAREHOLDERS . . . . . COVER

### ● STORA ENSO WORLDWIDE . . . . . COVER



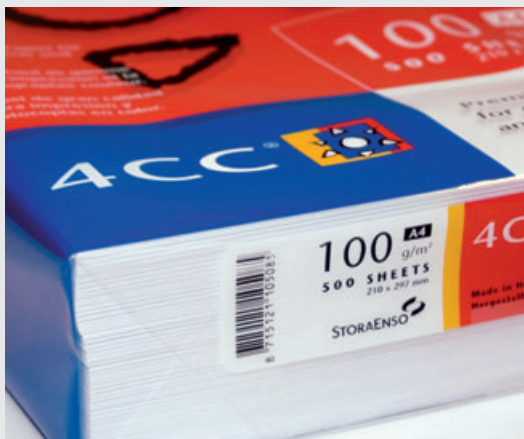
Publication Paper

Key figures

EUR million	2004	2005	2006	% of the Group
Sales	4 621.4	4 675.9	4 773.4	31.0
Operating profit*	104.6	193.3	251.6	33.2
% of sales	2.3	4.1	5.3	
Operating capital	4 095.8	4 179.9	3 946.9	34.9
ROOC, %**	2.5	4.7	6.2	
Average number of employees	12 884	12 450	11 972	26.2
Deliveries, 1 000 t	7 315	7 008	6 929	47.4
Production, 1 000 t	7 317	7 087	6 955	47.3

\* Excluding non-recurring items

\*\* ROOC = 100% \* Operating profit/Operating capital



Fine Paper

Key figures

EUR million	2004	2005	2006	% of the Group
Sales	2 668.8	2 690.3	2 956.3	17.5
Operating profit*	54.5	62.2	166.0	21.9
% of sales	2.0	2.3	5.6	
Operating capital	2 615.0	2 553.4	2 149.8	19.0
ROOC, %**	2.0	2.4	7.1	
Average number of employees	7 758	7 637	6 837	15.0
Deliveries, 1 000 t	3 596	3 521	3 839	26.3
Production, 1 000 t	3 727	3 554	3 861	26.3

\* Excluding non-recurring items

\*\* ROOC = 100% \* Operating profit/Operating capital



Packaging Boards

Key figures

EUR million	2004	2005	2006	% of the Group
Sales	3 053.4	3 190.2	3 531.5	22.7
Operating profit*	271.3	220.0	323.4	42.7
% of sales	8.9	6.9	9.2	
Operating capital	2 964.6	2 851.1	2 753.5	24.4
ROOC, %**	9.3	7.6	11.5	
Average number of employees	10 860	12 454	12 106	26.5
Deliveries, 1 000 t	3 499	3 621	3 850	26.3
Production, 1 000 t	3 475	3 678	3 883	26.4

\* Excluding non-recurring items

\*\* ROOC = 100% \* Operating profit/Operating capital



Forest Products

Key figures for Wood Products

EUR million	2004	2005	2006	% of the Group
Sales	1 566.8	1 588.3	1 676.4	10.8
Operating profit*	34.7	-3.1	59.1	7.8
% of sales	2.2	-0.2	3.5	
Operating capital	674.0	659.4	625.9	5.5
ROOC, %**	5.3	-0.5	9.2	
Average number of employees	4 856	5 081	4 894	10.7
Deliveries, 1 000 m³	6 664	6 741	6 572	100%

\* Excluding non-recurring items

\*\* ROOC = 100% \* Operating profit/Operating capital

Market position	Europe		World
Magazine Paper		2	2
Newsprint		1	3

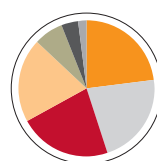
Market share %	Europe	North America	Latin America	Asia
Magazine Paper	19	14	40	3
Newsprint	21	1	0.5	2

Main markets (% of sales)	Europe	North America	Latin America	Asia
Magazine Paper	60	32	4	3
Newsprint	85	1	1	5

### Capacity 2007

Magazine paper 4.8 million t/a  
Newsprint 3.4 million t/a

#### Capacity by country



Germany	23%
Finland	22%
Sweden	22%
North America	20%
Belgium	7%
France	4%
Brazil	2%

Read more on pp. 16–19.

Market position	Europe		World
Graphic Papers		6	1
Office Papers		1	6
Papyrus		2	7

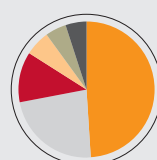
Market share %	Europe	North America	Asia
Graphic Papers	10	17	2
Office Papers	14	1	1
Papyrus	15	0	0

Main markets (% of sales)	Europe	North America	Asia
Graphic Papers	36	44	11
Office Papers	82	4	4

### Capacity 2007

Graphic paper 2.4 million t/a  
Office paper 1.7 million t/a

#### Capacity by country



Finland	49%
North America	23%
Sweden	12%
Netherlands	6%
Germany	5%
China	5%

Graphic paper = wood-free coated, coated fine paper  
Office paper = wood-free uncoated, uncoated fine paper

Read more on pp. 20–23.

Market position	Europe		World
Consumer Boards		1	1
Speciality Papers		1	1
Industrial Packaging		*	*

\* Due to the fact that Industrial Packaging consists of various products, a general market position for that business area is not applicable.

Main markets (% of sales)	Europe	North America	Asia
Consumer Boards	80	2	16
Speciality Papers	32	55	6
Industrial Packaging	85	2	10

### Capacity 2007

Packaging paper and board 4.1 million t/a  
Corrugated packaging 1.3 million m<sup>2</sup>  
Cores 0.2 million t/a

#### Capacity by country



Finland	46%
Sweden	27%
Germany	7%
North America	7%
Other Europe	6%
Poland	6%

Read more on pp. 24–27.

### Key figures for Wood Supply

	2004	2005	2006
Internal deliveries, million m <sup>3</sup> sub*	41.6	39.9	41.5
External deliveries, million m <sup>3</sup> sub*	10.1	12.2	11.4
Average number of employees	3 157	3 415	3 803

\* wood, solid under bark

Market position	Europe		World
Wood Products		1	3

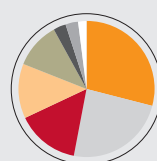
Market share %	Europe		World
Wood Products		4	2

Main markets (% of sales)	Europe	North America	Asia	North Africa	Middle East
Wood Products	61	5	26	6	2

### Capacity 2007

Sawn timber 7.4 million m<sup>3</sup>, of which 3.2 million m<sup>3</sup> value-added products

#### Capacity by country



Finland	29%
Austria	24%
Sweden	15%
Czech Republic	13%
Estonia	11%
Latvia	3%
Russia	3%
Lithuania	2%

Read more on pp. 28–31.

## Dear Shareholder,

### From the CEO

Stora Enso's result improved during the last year, but we still fell short of our profitability targets. Although demand for our products was generally good, we faced cost increases. We were able to reach sales of EUR 14 593.9 million and the operating profit excluding non-recurring items was EUR 757.5 million in 2006.

The profit improvements that we achieved came from increased sales volumes, somewhat better sales prices and internal performance enhancements. The Profit 2007 programme has proceeded well, and its objectives and targets have been reached. The Asset Performance Review (APR) programme has proceeded very well, and we have implemented mill divestments and machine closures ahead of schedule.

As part of efforts to evaluate our poor-performing mills, we placed four under special scrutiny, which has resulted in a decision to plan to close two, Reisholz in Germany and Berghuizer in the Netherlands, during 2007. Their short-term profit improvements were not enough and we were not able to see that these mills had the long-term potential to perform adequately.

Although profit improvement measures have called for tough measures, we can see very clearly that they have been necessary and they have to continue.

In 2006 we were able to implement some new innovative labour initiatives. These include local mill-specific measures that are geared towards improving mill profitability.

Local negotiations have caused some tension in labour relations, but the results overall have been very encouraging and point to our ability to identify new local ways of moving towards better mill performance that are in everyone's interests and necessary to implement.

We initiated a project to re-evaluate our sustainability strategy and improve

our ability to identify and respond proactively to strategic sustainability issues and to integrate these more closely into our overall business strategy process.

Following the completion of some major investments in our home markets in Europe and North America, we have stepped up actions in new growth markets. The first one has been the highly successful joint-venture Veracel pulp mill, which completed its first full year of operations in 2006. We have carried out a feasibility study on building an additional fibre line at Veracel, and the findings are promising.

Other projects have included the acquisition of Stora Enso Arapoti, a coated magazine paper producer, in Brazil, an SC-machine currently under construction in China, a decision to build the third corrugated packaging board mill at Lukhovitsy in Russia and some sawmill expansions elsewhere in Russia.

I will step down as CEO of Stora Enso after our Annual General Meeting on 29 March 2007, after over 30 years in the industry. There have been some dramatic changes over these years of which I would like to highlight two.

The first one is media advertising. This has grown significantly, and the



*Jouko Karvinen, CEO of Stora Enso from 29 March 2007 onwards.*

paper industry has grown alongside this development. Today, however, there are new players to share the revenue from this business, namely electronic media, which is a challenge to paper producers.

The second major development has been the gradual decline of North America and Europe as the dominant players in the forest products industry. Inexpensive fibre from the southern hemisphere is accounting for an increasing share of the world pulp supply. Also, new paper capacity has come on stream in Asia, mostly intended for local markets, but we can already see its impact on our export volumes and some of it also in home markets.

I would like to thank Stora Enso's personnel and stakeholders for very interesting and rewarding years in the industry and I wish all of you the very best into the future.

### From the Chairman

Jukka Härmälä, CEO first of Enso and then Stora Enso, is stepping down as CEO which marks a watershed in Stora Enso's development. We will still be able to benefit from his experience for a while, however, as he will continue to undertake special assignments on behalf of the Board until the end of August 2007.

It is my honour and pleasure to thank Jukka for all the work he has done for the company during his time as CEO. He played a key role in merging the two companies and expanding operations into North America and the new growth markets of Eastern Europe, Russia, China and Latin America.

I would also like to welcome Jouko Karvinen as our new CEO, and wish him all the best at Stora Enso and in the forest products industry. Jouko's background is in industrial automation and healthcare technologies. He brings





*Stora Enso's Chairman of the Board, Claes Dahlbäck, and CEO Jukka Härmälä.*

extensive global experience, a strong commitment to innovation and a solid track record on improving profitability in the businesses that he has managed.

Last year was a challenging year for Stora Enso, but the improvements we achieved and the progress that was made have been important in building a sounder foundation for the future of Stora Enso and all its stakeholders.

We are already in the full process of reviewing Stora Enso's strategy, and this

is and has been one of the first tasks for the new CEO. We are working with a thorough analysis of the Group's business and business portfolio, asset analysis, and a review of geographical coverage. The earlier announced Group target of ROCE 13% remains also for the new CEO and his team.

The Asset Performance Review (APR), launched in 2005 and mainly implemented in 2006, was the first step in this process. It is clear that the measures

taken as part of this and other initiatives must continue.

I would also like to thank our personnel for the good work done in 2006 in helping us restore our underlying profitability, and I trust that all of us will continue on this road, one that is essential to our future success. ●

Helsinki, 6 February 2007

Claes Dahlbäck, Chairman

Jukka Härmälä, CEO

# Focus on productivity and asset evaluation

Stora Enso is operated and managed as one industrial group, with a core product portfolio consisting of publication and fine paper, packaging board and wood products.

**F**urther profit improvements will be vital for Stora Enso's future success, both in mature and new growth markets. To reach this goal, we will need to enhance our productivity continuously and maintain an investment policy that focuses on our core assets.

This policy of targeted investments means that not all assets are of equal importance to the Group's future development. The Asset Performance Review (APR) was the first step in an ongoing process. We will continue to review and classify the Group's production assets according to their performance, future potential and importance to our chosen product portfolio; and allocate investments accordingly.

Working closer with our customers continues to be one of the cornerstones of Stora Enso's strategy. We will strive to strengthen our merchant operations in selected new markets and expand our share in the paper and board value chain.

The focus of Stora Enso's new growth market initiatives are Russia, China and Latin America. India is also a new area of interest for the Group. The drivers for this expansion are low-cost fibre, fast-growing market segments and balancing the Group's portfolio geographically.

Stora Enso is committed to sustainability – economic, environmental and social responsibility underpins our thinking and our approach to every aspect of doing business. The Group builds accountability into its operations by being transparent and engaging in open dialogue with stakeholders. Group-wide targets and clear govern-

ance are used to monitor and measure how well Stora Enso performs in terms of sustainability.

## Key financial targets

### Return on capital employed

Return on capital employed (ROCE) is a key indicator of performance for a capital-intensive company such as Stora Enso. The Group's ROCE target is 13% over the business cycle. Stora Enso's pre-tax weighted average cost of capital (WACC) at the end of 2006 was 8.5%.

Stora Enso reached a ROCE of 6.6% (excluding non recurring items) in 2006.

This was a considerable improvement on 2005, but was still far below-target, and unsatisfactory. The main reasons for the Group's failure to meet its target was low profitability due mainly to cost items such as wood raw material and energy. However, lower capital expenditure (Capex), proceeds from disposal of assets and improved working capital management reduced capital employed, therefore capital turnover accelerated.

### Growth

Stora Enso continues to aim for profitable growth, through both organic growth and selective mergers and

## Mission, vision and values

### Mission:

We promote communication and the well-being of people by turning renewable fibre into paper, packaging and processed wood products.

### Vision:

We will be the world's leading forest products company

- We take the lead in developing the industry
- Customers choose us for the value we create
- We attract investors for the value we create
- Our employees are proud to work with us
- We are an attractive partner for our suppliers

### Values:

#### Customer focus

We are the customer's first choice

#### Performance

We deliver results

#### Responsibility

We comply with principles of sustainable development

#### Emphasis on people

Motivated people create success

#### Focus on the future

We take the first step



Stora Enso strengthened its presence in Latin America during 2006. Through the acquisition of Arapoti Mill, Stora Enso became the sole producer of lightweight coated magazine paper in Brazil.

Reaching key financial targets	Target	2002	2003	2004	2005	2006
ROCE, %*	13	7.2	4.5	3.1	3.3	6.6
Operating margin, %		7.0	4.3	2.7	2.7	5.2
Capital turnover		1.0	1.1	1.1	1.2	1.3
Debt/equity ratio	≤0.8	0.37**	0.49	0.40	0.70	0.54
Dividend/share, EUR		0.45	0.45	0.45	0.45	0.45***
Payout ratio, %*	50	82	180	180	161	82

\* Excluding non-recurring items \*\* Adjusted with the initial valuation of IAS 41 Agriculture

\*\*\* Board of Directors' proposal to the AGM

acquisitions in its core businesses, mainly in new growth markets.

Acquisitions will only be made if they meet Stora Enso's financial targets and make a positive contribution to earnings per share (EPS) and cash earnings per share (CEPS) after one year, excluding synergies. Over the medium term, returns from acquisitions must exceed the Group's pre-tax WACC of 8.5%, and support the ROCE target of 13% over the long term.

#### Cash flow

Enhancing cash flow from operations is a high priority at a time of low profitability. To improve the efficiency of the management of its working capital, Stora Enso has set an internal benchmark that cash flow should exceed

average capital expenditure and dividends on a three-year rolling basis.

Stora Enso's cash flow from operations totalled EUR 1 892.9 million in 2006. The three-year rolling target was not met mainly due to profitability, which remains relatively low, and high capex and share buy-backs during earlier years.

#### Capital expenditure

Stora Enso's capital expenditure (Capex) policy is to keep Capex at or below depreciation over the business cycle.

Stora Enso's Capex in 2006 was EUR 583.4 million and was well below depreciation. Due to actions taken as a result of the Asset Performance Review (APR) and a strong focus on Capex allocation, Capex needs have been limited and were

much lower than in 2005, when the Group's asset quality was considerably improved through machine modernisations, rebuilds and major investments in new machines.

#### Stability

##### Financial position

Stora Enso recorded a debt-to-equity ratio of 0.54 in 2006, indicating good balance sheet strength and financial flexibility. The Group target is 0.8 or less.

Performance in this area in 2006 benefited from the results of the APR, in the form of divestments and limited Capex.

##### Volatility

Stora Enso aims to reduce the volatility of its business by making the Group's portfolio less cyclical and by diversifying its operations geographically.

##### Shareholder return

Stora Enso's dividend policy aims to distribute half of the Group's net profit over the cycle to shareholders as dividend; and to prioritise stability of cash dividend payments over long term. ●

# Profit improvement programmes to secure a competitive production base

**P**rofit 2007, the Asset Performance Review and the mill scrutiny programmes are aimed at improving Stora Enso's performance in its mature markets: Europe and North America. Good financial performance in these large markets is vital to enable Stora Enso to grow where new opportunities exist.

## Profit 2007 target reached

Stora Enso's profit improvement programme, Profit 2007, has proceeded well and an improvement of EUR 310 million was reached by the end of 2006. The programme's initial target of an improvement of EUR 300 million in annual pre-tax profit from mid-2007 onwards was based on 2005 price and cost levels, and was net of implementation costs.

The measures used to achieve these improvements have addressed three main areas: production costs, support and administration costs and the sales and production mix.

In the area of production costs the initiatives have included energy savings programmes, reduced use of chemical pulp, recipe changes and more efficient globally co-ordinated purchasing.

The actions taken in the area of support and administration have included reorganisation of the sales network (Fine Paper and Wood Products); restructuring logistics operations; cost savings through IT standardisation and merging North American and European IT; shared services in accounting and pay-roll in Finland, Sweden and Germany; integration of mill administration; and moving a major part of Financial Services from London to Helsinki.

The sales and production mix included improving product portfolios at various mills, optimising logistics, improving market mix and enhancing customer focus and pipeline management.

The Profit 2007 programme has also seen a reduction in personnel. A total of approximately 1 600 personnel have been reduced, compared to a target of 2 000. Half of these have been white-collar staff, and slightly more than half of the reductions have been made in the

Nordic countries and the rest elsewhere in Europe. Only 180 of the 600–700 possible personnel outsourcing opportunities identified have been implemented, however. This has been a disappointment and there is clearly room for improvement.

## APR-related divestments and machine closures ahead of schedule

The Asset Performance Review (APR) targeted the closure of four production units and the divestment of four paper or board

## Stora Enso capacity since 2000

### Capacity closures

Europe	Date	Grade	Capacity reduction (t/a)
Summa PM 1	Feb 2002	Newsprint	110 000
Langerbrugge PM 2	Mar 2003	SC	115 000
Kvarnsveden PM 9	Jun 2005	Newsprint	140 000
Corbehem PM 3 and PM 4	Jun 2006	LWC	250 000
Reisholz Mill <sup>2</sup>	–	SC	215 000
Nymölla CM <sup>1</sup>	Feb 2002	WFC	150 000
Varkaus PM 1	Nov 2006	WFU	95 000
Berghuizer Mill <sup>3</sup>	–	WFU	235 000
Mölnådal Mill	Apr 2000	FBB	45 000
Newton Kyme Mill	Jan 2001	FBB	35 000
		Total	1 390 000

North America	Date	Grade	Capacity reduction (t/a)
Whiting PM 61	Oct 2000	CMR	60 000
Wisconsin Rapids PM 15	Oct 2000	Fine paper	70 000
Biron PM 23	Feb 2002	CMR	60 000
Wisconsin Rapids PM 12	Jan 2003	Fine paper	90 000
Biron PM 24	Sep 2003	CMR	70 000
Stevens Point PM 32	Sep 2003	Coat. Spec.	25 000
Stevens Point PM 31	Mar 2006	Coat. Spec.	25 000
		Total	400 000
		ALL TOTAL	1 790 000

<sup>1</sup> Production as WFU continues

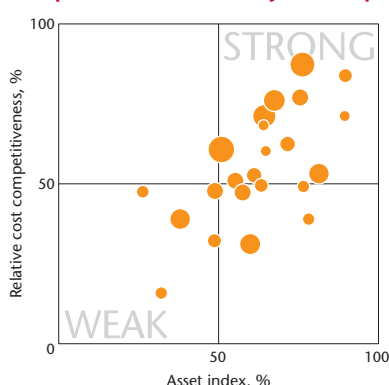
<sup>2</sup> Intention to close Reisholz Mill announced

<sup>3</sup> Intention to close Berghuizer Mill announced

In addition to the above APR-related closures (marked in grey), Hammarby Mill's coating machine, 35 000 t



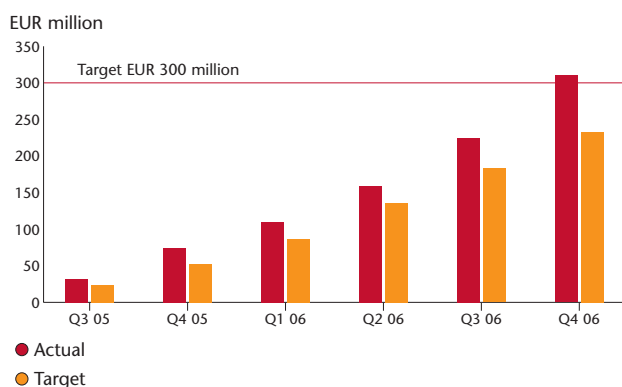
## Stora Enso's paper and board mill competitiveness compared to the industry in Europe



Note: Berghuizer and Reisholz mills are excluded from the chart.

Source: Pöyry, Cost level 2006/Q3

## Profit 2007 – EUR 300 million target reached



mills and one sawmill. These targets were reached ahead of schedule. Four paper mills were also placed under scrutiny.

The criteria used for shutting down a machine have been lack of profitability due to poor asset quality and lack of demand for specific grades, or a decision to exit a product segment (see table on page 10). These closures reduced Stora Enso personnel by about 650.

Linghed Sawmill, Grycksbo single-coated fine paper mill, Pankakoski board mill and Wolfsheck paper mill were

divested, reducing personnel by about 1 280. The decision to divest these mills was based on an assessment of their profit potential, strategic fit and realisable value, as well as an analysis of whether the units in question would undermine the Group's remaining product palette if in other ownership.

### Planned closure of Berghuizer and Reisholz to improve results further

As a result of four mill scrutiny projects that covered Berghuizer Mill in the

Netherlands, Reisholz Mill in Germany, Summa Mill in Finland and Uetersen Mill in Germany, the plan is to close two of these units – Berghuizer, with 235 000 tonnes of uncoated fine paper capacity, and Reisholz, with 215 000 tonnes of super-calendered capacity – because of poor current profitability and lack of future profitability prospects.

Summa Mill improved its financial performance through locally agreed efficiency measures that included salary and wage adjustments and freezes, agreements on operator maintenance and sharing maintenance resources. Uetersen Mill plays an important part in the Group's graphic paper product portfolio, and has improved its financial performance through measures such as personnel reductions and changes in local labour agreements. Both Summa and Uetersen will need to improve their profitability further, however.

Stora Enso is continuing efforts to improve its results. Measures similar to APR can be expected in the future. Some mills are still not meeting their financial targets, asset quality is not sufficiently high and increasing raw material and energy costs are challenging profitability. ●

## Capacity additions

Europe/Asia	Date	Net production increase (t/a)
Rebuild of Uetersen PM 2	Dec 2001	31 000
Rebuild of Oulu PM 6	Nov 2001	95 000
Rebuild of Langerbrugge PM 3	Nov 2002	50 000
Langerbrugge PM 4 (new)	Jun 2003	390 000
Production increase Summa PM 3	Jan 2002	15 000
Rebuild of Corbehem PM 5	Mar 2004	55 000
Quality upgrade of Nymölla PM 1	Jan 2004	8 500
Modernisation of Sachsen PM 1	Sep 2003	21 000
Rebuild of Veitsiluoto PM 3	Dec 2003	114 000
Rebuild of Kotka PM 2	Dec 2003	26 000
Kvarnsveden PM 12 (new)	Oct 2005	426 000
Rebuild of Summa PM 2	Apr 2005	13 000
Rebuild of Maxau PM 6	Sep 2004	120 000
Rebuild of Suzhou PM 1	Feb 2005	50 000
Rebuild of Fors BM 2 and boiler	Nov 2007	13 000
Total		1 427 500

North America	Date	Net production increase (t/a)
Rebuild of Biron PM 26	Feb 2005	55 000
Rebuild of Duluth PM 1	Jun 2002	15 000
Rebuild of Kimberly PM 96*	May 2003	25 000
Rebuild of Kimberly PM 97	Jun 2004	80 000
Rebuild of Wisconsin Rapids PM 16	Dec 2000	15 000
Rebuild of Wisconsin Rapids PM 16	Feb 2004	75 000
Modernisation of Whiting PM 64	Apr 2006	15 000
Total		280 000

ALL TOTAL 1 707 500

\* Rebuild from LWC to WFC

82 500 tonnes of net capacity reductions since 2000 – equal to 0.52% of average annual capacity during the period.

## Strategy in action in 2006



The joint-venture paper machine in China will produce SC paper based on recovered fibre to satisfy local demand for offset printing paper.

### Customer and profitability focus in mature markets

Stora Enso continued its strategy of moving closer to its end-use customers in 2006 by finalising the integration of paper merchants Scaldia in the Netherlands, Papeteries de France in France and the Schneidersöhne Group in Germany, acquired in 2004 and 2005. The acquisitions have already delivered a positive contribution, particularly to the performance of the Fine Paper division.

In addition to the Group's profit improvement measures – Profit 2007 and the Asset Performance Review (APR) – some investments were made in selected assets in mature markets. A rebuild of the wood-handling department and paper machine at Varkaus Mill in Finland was announced during the year, while investments were also allocated to Anjala and Oulu mills. The finishing department at Anjala is to be rebuilt, and a new sheeting line will be constructed at Oulu to allow more output to be sheeted on-site. The company also decided to invest in additional coreboard pro-

duction at Wisconsin Rapids in the USA. A cross-laminated element plant is to be built at the Bad St. Leonhard Sawmill in Austria.

### Corrugated board and sawmill investments continue in Russia

Stora Enso is building its third Russian corrugated packaging plant in Lkhovitsy, which is located 130 kilometres from Moscow, Russia's largest packaging market. Stora Enso has been producing corrugated packaging in Russia since the end of the 1990s, at Balabanovo, which is also close to Moscow, and Arzamas, close to Nizhni Novgorod.

The Group also intends investing in its two sawmills in Russia. Annual production capacity at Nebolchi Sawmill will be virtually doubled to 220 000 m<sup>3</sup>, with the potential to kiln-dry all output. A total of 100 000 m<sup>3</sup> of output will be on-line planned after the investment. A kiln-drying facility will be added at Impilahti Sawmill, and production capacity slightly increased to 140 000 m<sup>3</sup>. Both sawmills will also be equipped with pellet plants.

### SC paper machine and plantation expansion in China

Stora Enso is continuing to expand its base in China. The Group has announced a publication paper joint venture with Shangdong Huatai Paper, to build 200 000 tonnes of supercalendered (SC) paper capacity at Dongying in Shandong province. The machine will use recovered fibre as raw material. Some of the machine's components will come from a unit that operated previously at Stora Enso's Maxau Mill in Germany.

Stora Enso has also increased its plantation holding in southern China to provide a solid fibre base for integrated production in the region in the future. Beihai in Guangxi province will provide the Group with 30 813 hectares of plantations and land between 2006 and 2008. The aim is to create a sustainably managed fibre base of 160 000 hectares of plantation land by 2010.

Following the acquisition of core plant assets from Foshan Huaxin Packaging Co by Stora Enso's coreboard and core manufacturing unit, Corenso, these

assets will be relocated in Foshan to establish a 20 000-tonne core plant.

### **Sole producer of coated mechanical paper in Latin America**

The Group took a major step forward in Latin America during 2006 when it acquired Stora Enso Arapoti, the assets of which were previously owned by International Paper subsidiaries Inpacel – Indústria de Papel Arapoti Ltda. and Inpacel Agroflorestal Ltda. This has made Stora Enso the sole producer of coated mechanical paper in Latin America, with one paper machine and 205 000 tonnes of annual capacity. Stora Enso Arapoti also owns a modern sawmill, capable of processing 150 000 m<sup>3</sup>/a of sawn timber, and 50 000 hectares of land, of which 30 000 hectares are productive plantations.

Stora Enso initiated exclusive discussions with Arauco, a Chilean forest products company, on the joint ownership of Arapoti's assets in October 2006. Stora Enso wants to concentrate on paper production in the region and does not see itself as a local sawmilling operator. Discussions will also focus on improving the efficiency of the use of Arapoti's plantations.

Stora Enso is continuing to expand its plantation holdings in southern Brazil and Uruguay. The target is to acquire 100 000 hectares of land in both countries for plantation use. As of the end of 2006, the company owned 46 000 hectares of land in southern Brazil and 30 000 hectares in Uruguay.

### **R&D contributing to profit improvement and recycling**

#### **Paper**

Research and development (R&D) on paper products in 2006 addressed raw material costs and production efficiency. The important issues in publication paper grades were replacing clay with calcium carbonate filler and achieving full production and quality performance on PM 12, the new SC-paper machine at Kvarnsveden Mill.

#### **Packaging**

Packaging products-related R&D continues to focus on product performance and developing new packaging solutions.

Enhancing product performance in areas such as print quality, converting line runnability and barrier solutions are priorities.

The first new-generation DBS Disc-box Slider packaging machine for carton-based DVD packaging started production in November.

The anti-counterfeiting and brand protection solution, PackAgent, was piloted successfully with Orion Pharma in Finland and Estonia. This software-based solution uses unique IDs to track items, and can handle the entire supply chain, providing visibility and tracking information to all parties.

A patent-pending Controlled Delaminating Material (CDM) technology has also been developed that offers new features for adhesive joints in packages and packaging systems. A solid electrolyte is used as the adhesive, and opening or release takes place by running a small electric current through the joint. The

first commercial applications will be blister packs and consumer and industrial display packages.

#### **New ventures**

Design Force – partly owned by Stora Enso Ventures – began industrial production of Re-board in the second quarter. A new structural material offering a unique combination of light weight, strength and graphic design, Re-board is ideal for store and exhibition interiors. Commercial deliveries began in the third quarter of 2006.

Engineering on a plant using a new technology for recycled beverage cartons was started towards the end of the year. The technology is based on pyrolysis and combines material recycling and energy recovery very efficiently. The project underlines Stora Enso's commitment to developing the recycling of post-consumer beverage cartons; and is a good example of how waste streams can be used for producing fuel at a paper and board mill. This will be an important area of future R&D. ●



*Stora Enso continues to invest in its sawmilling operations in Russia. Annual capacity at Nebolchi Sawmill will be doubled to 220 000 m<sup>3</sup>.*



# Competitive environment in 2006

**D**emand growth in printing and writing paper recovered slightly in 2006, and global demand grew by 2% after 1% growth in 2005. Coated woodfree paper and SC paper led the way with almost 4% growth, whereas uncoated woodfree and coated mechanical advanced by only 1%.

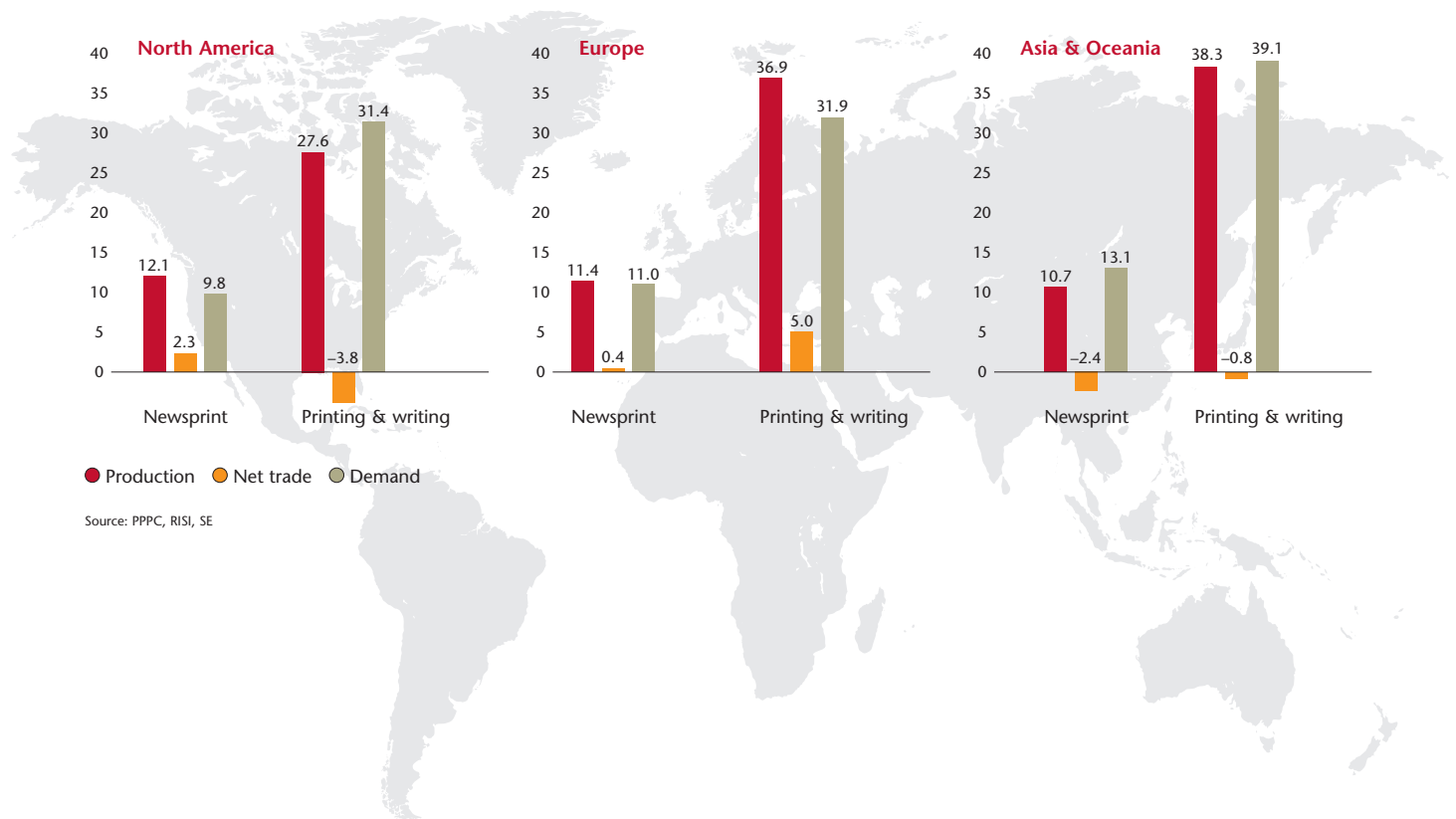
Growth was fastest in Eastern Europe, China and Latin America, where

growth ran at 7–10%. Growth in North America was flat and demand in Western Europe grew by less than 1%.

Although growth in China in recent years has outpaced all other markets, local consumption of printing and writing paper, at 11.1 kgs per capita, is still relatively low compared to other regions (see graph on next page).

Despite the recent modest growth in capacity in the printing and writing paper sector, exports still account for a high proportion of Western European production, with a quarter of coated magazine paper production being exported. Imports of printing and writing paper have continued to grow strongly in North America, particularly of coated woodfree paper, where imports

Production, demand and net trade in 2006 of printing and writing paper, and newsprint (million tonnes)



Source: PPPC, RISI, SE



## Estimated demand in 2006 (million tonnes/m<sup>3</sup>)

Grade	Europe	North America	Asia & Oceania
Newsprint	11.0	9.8	13.1
Uncoated magazine	6.3	6.2	2.1
Coated magazine	7.6	5.9	3.2
Uncoated fine paper	9.8*	12.9	21.9
Coated fine paper	8.2	6.4	11.9
Cartonboard	6.1**	13.3	17.3
Sawn softwood (million m <sup>3</sup> )	100	120	n.a.

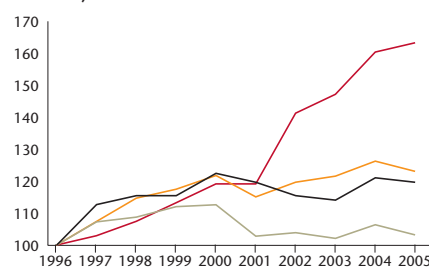
\* Excl. specialties

\*\* Incl. folding box board, solid bleached and white-lined chipboard

Source: International softwood conference, PPPC, RISI, SE

## Per capita consumption of printing and writing paper

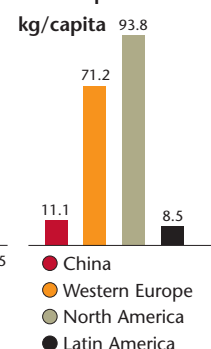
Growth, index 1996=100



— China — Western Europe — North America

Source: Pöyry

Consumption in 2005



currently account for more than one quarter of market demand.

Demand for packaging board has remained steady and was somewhat higher than in 2005, both in Europe and North America. Growth was fastest in Eastern Europe and China, however.

Wood products have benefited from strong construction activity, boosting demand in Europe, the Middle East and Japan. Constraints on the availability of saw logs, however, have restricted supply. Demand for sawn softwood in North America has plummeted, due to a rapid slow-down in the housing market.

### Europe

Demand for printing and writing paper in Europe is estimated to have been 31.9 million tonnes in 2006. Production capacity increased only marginally over 2005. Total exports to other regions rose to 5.5 million tonnes and imports were around 0.5 million tonnes. Export shipments grew solidly in uncoated magazine paper and coated fine paper.

Demand for standard newsprint increased by 3% to 11 million tonnes, driven by strong demand in Eastern Europe. Production capacity remained practically unchanged. Exports and imports both continued to decline. Demand for improved newsprint stagnated.

Demand for cartonboard increased to 6.1 million tonnes, up by 3% from 2005. Exports to other regions rose.

Demand for sawn softwood in Europe reached 100 million m<sup>3</sup> in 2006, up 2% on 2005.

### North America

Demand for printing and writing paper is estimated to have been 31.4 million tonnes in 2006, unchanged from 2005. Domestic production totalled 27.6 million tonnes, down by 2%, while production capacity fell by 2.5% compared to 2005.

The newsprint market remains under pressure, due to declining circulation, shrinking ad lineage and a continuing trend towards lower basis weights. Demand decreased by 5% to 9.8 million tonnes. Capacity shrank by 5% and exports declined; and production fell by almost 7% compared to 2005.

Demand for sawn softwood in North America declined due to a softer housing market and was estimated to be 120 million m<sup>3</sup>, or 2% lower than in 2005.

### Asia & Oceania

Demand for printing and writing paper in Asia has been slowing, but is still healthy. Usage is estimated to have risen by over 3% in 2006, to 39.1 million tonnes. Demand for coated paper grew the fastest. Production capacity expanded by 4%. China is strengthening its role as an exporter of printing and writing paper.

Demand for newsprint is estimated to have been 13.1 million tonnes in

2006, 1.4% higher than in 2005. The pace of growth in China slowed and demand rose by just over 3% after a number of years of double-digit growth rates. The rise in local production capacity has accelerated, leading to a rapid growth in Chinese exports.

Demand for cartonboard in Asia totalled 17.3 million tonnes, 6% higher than in 2005. Although growth slowed a little in China, it was still estimated to be running at 9%. Capacity increased a modest 0.6 million tonnes, after expanding by 1.3 million in 2005. As Asian production has increased more rapidly than demand, net imports have declined.

### Latin America

Demand for printing and writing paper developed positively and increased to 5.1 million tonnes, 7% more than in 2005. Imports, which account for 20% of demand, increased by 15%. Brazil was the largest market, at around 1.8 million tonnes. Production totalled 4.2 million tonnes, up 2%, while production capacity increased by 1%. The main grade in the region is uncoated fine paper, which accounts for three-quarters of total output.

Demand for newsprint totalled 1.8 million tonnes, 1% higher than in 2005. Domestic production in the region and net imports both stood at 0.9 million tonnes.

# Realising opportunities

## in new growth markets

Stora Enso Publication Paper will continue to strengthen its profitability in a challenging business environment through a number of actions. One focus area will be to improve the division's asset structure further and thereby ensure that Publication Paper becomes a sustainably profitable producer with competitive mills. Investments in new growth markets offer good business opportunities.

The Arapoti acquisition in Brazil was completed in September 2006 and a joint-venture paper machine in China is expected to start up in late 2007. Being the customer's preferred supplier is important. The division offers a broad product portfolio and serves its customers through a global sales network. Stora Enso is one of the world's leading producers of publication paper.

**S**tora Enso Publication Paper's vision is to be a preferred and a sustainably profitable supplier. Growth will be achieved through profitable investments, mergers and acquisitions. The division offers a broad product portfolio and has a strong market position in all its businesses.

### Improving performance

To strengthen its competitiveness, Stora Enso Publication Paper has set itself the target of becoming a cost-efficient producer in all of its business areas. The division also aims to further improve its asset structure and develop its mills to achieve world-class productivity.

On the customer side, the division is focusing on customer profitability and leadership in product innovation and quality. Monitoring the latest developments in product end-uses is also an ongoing priority.

### Entering new growth markets

New growth markets are characterised by high growth rates, but relatively low volumes. In China, the highest end-use growth is being seen in newspapers, magazines and commercial printing. In Brazil, commercial printing and magazines are growing the fastest in terms of end use.

Following the Arapoti acquisition, Stora Enso now has a strong presence on the Brazilian market. Arapoti Mill has a production capacity of 205 000 t/a of lightweight coated (LWC) paper.

In China, a joint venture with Shandong Huatai Paper will assemble a paper machine with a planned capacity of up to 200 000 t/a of super-calendered (SC) magazine paper based on recovered fibre.

### Port Hawkesbury on stream

Port Hawkesbury Mill in Canada was restarted in October 2006, following a 10-month shutdown mainly due to a labour dispute. Both of the mill's paper machines were up and running by the end of November. The main local factors that will impact the future profitability of the mill are energy, wood, labour and local regulations. The strength of the Canadian dollar, which puts pressure on Canada's export industries, is a particular challenge.

### More efforts to improve energy efficiency

Energy prices and supply continue to rank high on the agenda for the Publication Paper division. As a result, in-house energy generation at mills and investments such as combined heat and power

projects are being studied. Recent energy investments include boiler projects at Kvarnsveden and Hylte mills.

### Improvements in the sales network

Bringing all publication paper operations under one umbrella has facilitated the optimisation and improved the coordination of sales within the division by enabling a 'one-face-to-the-customer' approach.

In order to achieve better market penetration and reach new customer segments, the division is developing sales through Stora Enso's merchant business, such as Papyrus/Schneidersöhne.

### Innovation is essential

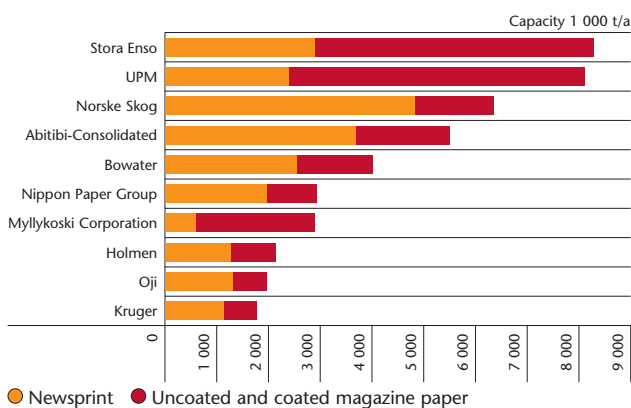
R&D core competence groups are continuously working on new product developments and process efficiency. They support the division's cost-competitiveness by finding new solutions for product recipes, compensating for the ongoing price increases being seen in pigments and other chemicals.



Read more about

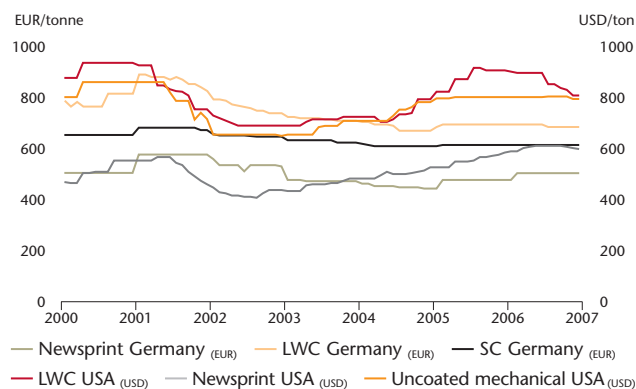
- energy in the Sustainability 2006 report on p. 21.
- Arapoti Mill and the joint venture with Shandong Huatai Paper on the next spread.

### World's leading producers of publication paper



Source: Pöyry

### Publication paper prices in Germany and the USA 2000–2006



Source: PPI This Week, Pulp & Paper Week





The paper market in China is one of the fastest-growing in the world, mainly thanks to the country's rapid economic growth.

Stora Enso Publication Paper's operations consist of three business areas: Newsprint and Book Paper, Uncoated Magazine Paper and Pulp, and Coated Magazine Paper.

Publication paper is produced from both recovered and primary fibre, depending on the quality requirement of the paper grades concerned. Recovered fibre is used mainly for lower brightness

### Seeking profitable growth in China

Stora Enso's recent activities in China have included setting up a publication paper joint venture with Shandong Huatai Paper. This decision was driven by the fact that the Chinese paper market is one of the fastest-growing in the world, thanks to the country's rapidly expanding economy and growing urban, educated population.

The joint venture's paper machine, which is planned to have an annual production capacity of up to 200 000 tonnes, will produce super-calendered magazine paper based on recovered fibre. The machine will be located at Dongying in Shandong province, between Beijing and Shanghai.

The machine is expected to start up in late 2007, and its output is targeted for

the local Chinese market, where demand for offset printing paper is growing strongly. The Beijing Olympic Games in early autumn 2008 are expected to be promoted extensively in print media.

The total investment of the joint venture is estimated to be approximately USD 100 million (EUR 83 million), of which Stora Enso's share is 60%.

The project is proceeding on schedule. Construction of the machine hall has started and the assembly of the production line will start in mid-2007, depending on the permit process. Some components of the equipment are sourced from a machine formerly located at Stora Enso's Maxau Mill in Germany, although the key components are new.

grades, such as newsprint and SC-B grades, whereas higher brightness grades are typically produced using primary fibre.

### Strong position in newsprint

The **Newsprint and Book Paper** business area has mills in Europe and North America producing standard newsprint, improved newsprint, and directory and book paper. Stora Enso has a strong position in these markets in Europe, particularly in Germany, the UK and the Nordic countries.

These grades are used in newspapers and supplements, telephone directories, timetables, and hardback and paperback books.

### Periodicals, inserts and flyers

The **Uncoated Magazine Paper and Pulp** business area operates mills in North America, Germany, Belgium, Sweden and Finland – producing uncoated machine-finished (MF), super-calendered (SC) magazine paper and chemical pulp.

Uncoated magazine paper is used mainly for periodicals and advertising material, such as inserts and flyers; and is also suitable for mass-circulation products, such as TV magazines and catalogues. Chemical pulp is mainly used as a reinforcement raw material in the manufacturing process and some volume is sold on the market.

### Quality paper for premium end-uses

The **Coated Magazine Paper** business area has mills in France, Germany, Finland, the USA and Brazil. These produce machine-finished coated (MFC) and coated (LWC, MWC, HWC) magazine paper in matt, silk and glossy grades.

General and special-interest magazines are among the most important end-uses for coated magazine paper. Other end-uses include supplements, advertising material, magazine covers, and premium and home-shopping catalogues. ●



## A further step into **new growth markets**

Stora Enso Arapoti comprises a paper mill, a sawmill and plantations in Brazil, acquired from International Paper in 2006. The paper mill produces lightweight coated (LWC) magazine paper and has been integrated into Stora Enso Publication Paper division. Through the acquisition, Stora Enso has become the sole producer of LWC in Latin America.

### **New growth markets strategy**

The Arapoti acquisition is in line with Stora Enso's strategy of being present in new growth markets. The paper mill is Stora Enso's first paper production facility in Latin America and establishes the Group's publication paper business there.

### **A market with opportunities**

With a population of approximately 180 million and a paper market growing at an estimated 4–7% annually, Brazil offers good business opportunities for Stora Enso.

Stora Enso has a significant share of the Latin American publication paper market. Most of Arapoti's sales go to the domestic market, but Chile and Argentina are also important markets. Brazil and Argentina are members of the MERCOSUR regional free trade agreement, and Chile has associate member status.

### **Local service to global customers**

Most of Stora Enso Arapoti's customers are large printing houses and commercial publishers, together with producers of magazines and catalogues. Arapoti's products fit very well into the division's product portfolio.

The paper mill is located at Arapoti in the state of Paraná, close to Brazil's major economic centres and the city of Sao Paulo, where many large customers are located. The mill also enables Stora Enso to serve some of its global customers locally.

### **Arauco joint ownership**

Stora Enso has initiated discussions on the possible joint ownership of some of Stora Enso Arapoti's assets with Arauco, a Chilean forest products company, primarily in the area of sawmill and forestland operations.

### **Stora Enso Arapoti**

- LWC capacity of 205 000 t/a
- Annual capacity of 150 000 m<sup>3</sup>/a sawn timber
- 50 000 hectares land around the mill, of which 30 000 hectares are productive plantations
- A total of 720 employees, of which 392 work at the paper mill.



Read more about plantations on p. 30 and in the Sustainability 2006 report on pp. 18–19.



*Arapoti Mill produces coated magazine paper for large printing houses and commercial publishers in Brazil.*

Modern mills

# located close to customers

Stora Enso Fine Paper produces graphic and office paper at mills in Europe, the USA and China. The value chain extends from the Group's own plantations to kraft pulp and paper production, sheeting and merchant operations. Stora Enso is one of the world's leading producers of fine paper. The Fine Paper division focuses on cost-efficient production and superior customer service as part of its ambition of becoming the most profitable

supplier globally. Having mills close to resources and customers is especially important. Stora Enso is well-positioned in the USA as well, where it is aiming for increased business in the Midwest, in particular. Stora Enso has a wide coverage of the European fine paper market through Papyrus. The integration of Schneidersöhne has been successful and expansion possibilities in Eastern Europe are now being explored.

Stora Enso Fine Paper's vision is to be the most profitable fine paper supplier in the world. This will be achieved through cost-efficient production and superior customer service, and by winning and retaining significant market share in target segments and regions, with a special focus on natural markets close to its mills.

Success depends on technically high-class and modern pulp and paper mills, well located in terms both of resources and customers. Ultimate financial performance will be dependent on efficient distribution and the capability to develop new economically attractive products.

### Structural changes

The Fine Paper division focuses on the multicoated fine paper business in Europe, North America and China. The asset base in this segment is strong. The divestment and closure of single-coated fine paper assets during 2006 have reinforced this strategy.

When the planned closure of Berghuizer Mill is completed, the Office Papers business area will have only integrated mills using their own pulp, which will also ensure a cost-efficient energy base.

### Improving mill efficiency at Varkaus

The paper machine 3 at Varkaus Mill in Finland will be rebuilt for EUR 54.8 mil-

lion during 2007 to improve efficiency at the mill and profitability in the Office Papers business area. The investment will also improve the fine paper mill's future competitiveness and strengthen its position in the division's asset portfolio. In addition, it will increase mill specialisation within the division, allowing certain product transfers between Veitsiluoto, Varkaus and Imatra mills. The project is scheduled to be completed in December 2007.

### Looking for new opportunities

Stora Enso has a good position in the US fine paper market, and is perceived as a respected supplier with the capability of growing its market share. The aim is to continue increasing the coated fine paper business in the USA, especially in the Midwest.

Eastern Europe and Russia offer growth opportunities for Stora Enso's coated fine paper and merchant businesses.

### Fibre supply solutions

Following the integration of Oulu Mill with Veracel Pulp Mill in respect of short-fibre eucalyptus pulp, Oulu ceased its production of birch pulp in September 2006. This has created a low-cost base for both long and short fibre, and resulted in a more balanced wood supply

for Oulu and Veitsiluoto pulp mills in northern Finland. Domestic sourcing of pine (long fibre) has increased substantially.

### Growing market in China

China is the third-largest market for Stora Enso's coated fine paper products, mainly thanks to Suzhou Mill. Nearly all of the mill's output is sold to the local market. Coated fine paper end-uses are growing at around 6%/a.

### Developing sales practices

Several changes were made to the sales organisation during 2006, as part of the division's Profit 2007 programme.

The German sales company was relocated to Uetersen Mill and the fine paper sales office in Finland was integrated with Papyrus operations.

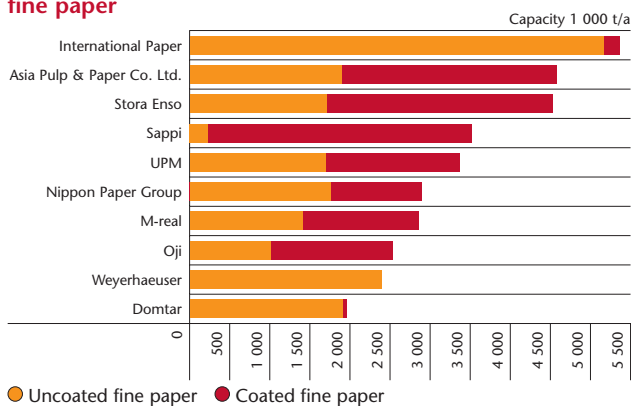
Coated fine paper sales in the UK moved to the Mendelsham sheeting location, while the sales office in the USA has been integrated with the local business unit.

The Graphic and Office Paper business area functions have been transferred from London to Helsinki. ●



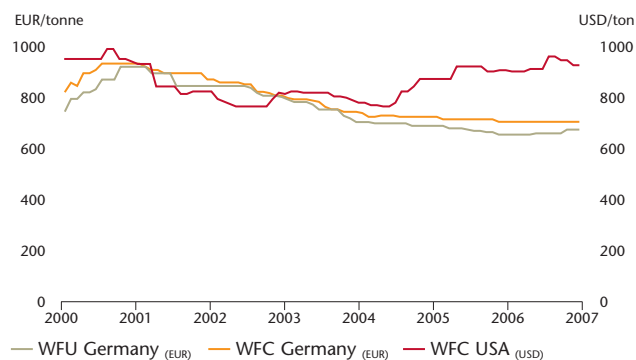
Read more about North American operations on the next spread.

## World's leading producers of uncoated and coated fine paper



Source: Pöyry

## Fine paper prices in Germany and the USA 2000–2006



Source: PPI This Week, Pulp & Paper Week



Stora Enso Fine Paper's operations consist of three independently managed business areas: Graphic Papers, Office Papers and Papyrus.

The division's value chain extends from the Group's own plantations to kraft pulp and paper production, sheeting and merchant operations.

#### Focus on multicoated fine paper

**Graphic Papers** is the most global business in the Fine Paper division, with mills in the USA, Europe and China. The pulp used by these mills comes from Stora Enso's integrated and captive pulp mills. Eucalyptus pulp from Veracel Pulp Mill in Brazil is delivered to units in Northern Europe and China. A significant proportion of products are distributed through the Papyrus network.

Stora Enso's main markets for these products are North America, Europe and China. Coated fine paper (graphic paper) is tailored to meet the high-quality printing needs of printers and publishers; and

is used in art books, annual reports, upmarket magazines and catalogues.

#### Paper for modern offices

The **Office Papers** business area covers production of copy paper, envelope, writing and stationery paper. The mills in Europe are integrated into their own pulp production and part of their output is distributed through the Papyrus network.

Uncoated fine paper (office paper) meets the rapidly changing and highly demanding needs of modern offices. Products include document printing paper, digital paper, envelope paper, business forms and paper used in school notebooks and writing pads.

#### Supporting customers through dynamic pan-European operations

**Papyrus** is a paper and packaging merchant owned by Stora Enso and operates in 20 countries. As a result of acquisitions, Papyrus is represented locally both

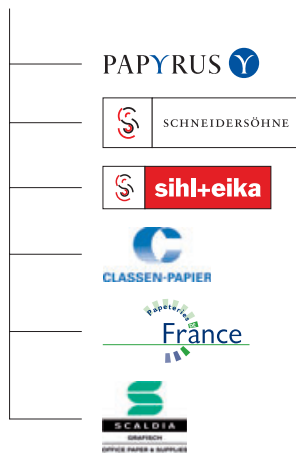
under its own brand name and under the Schneidersöhne, Papeteries de France, Sihl+Eika, Scaldia and Classen-Papier brands. All of these brands and companies have long traditions and a record of excellence in their respective home markets.

Papyrus is Europe's second-largest paper merchant. Although it operates under different names, Papyrus has a coherent one-company commitment to offer quality products, high service levels, and superior e-business and logistics solutions for its customers.

A significant proportion of Stora Enso's graphic and office paper output is distributed through Papyrus, ensuring high availability and good service via a dense European network.

Schneidersöhne was integrated into Papyrus successfully during 2006; and Papyrus is now looking at expansion possibilities in Eastern Europe and Russia. ●

#### Papyrus brands



[www.papyrus.com](http://www.papyrus.com)



*Papyrus' network of 38 warehouses throughout Europe and good logistics solutions ensure excellent product availability.*





Wisconsin Rapids fine paper mill is located close to customers, warehouses and printing plants. Local deliveries are made by truck.

## Customer service is top priority

North America is the world's largest paper market and the most important market for Stora Enso Graphic Papers. Stora Enso is among the most efficient producers in North America, where about 40% of the Group's coated fine paper capacity is located, at two sites, Kimberly and Wisconsin Rapids.

### Strong asset quality

Stora Enso's fine paper business has been growing in North America in recent years, largely as a result of the extensive Profit Enhancement Programme, which included both restructuring of assets and investments.

In terms of cost competitiveness, Stora Enso is well positioned and its asset structure is among the strongest and most productive in the region.

### Customer's first choice

To keep close contact and maintain long-term relationships with customers is important when focusing on meeting customers' needs.

Ensuring that Stora Enso is the customer's supplier of choice not only means offering paper that runs reliably and prints well, but also providing supe-

rior service through short lead times and good product availability. Developing new products, such as digital grades and forest-certified grades, as needs change is also important.

### Strong brands

Stora Enso is perceived as a reliable and customer-focused supplier of high-quality fine paper, with some strong product brands that printers have come to rely on over the years. There is still room for growing the Stora Enso brand in North America, for example by increasing partnerships with customers to better meet their needs at lower supply chain costs.

### Location, location, location

Stora Enso's fine paper mills are located in the heart of the Midwest. A large proportion of the North American printing

market lies within some 500 kilometres of the Group's mills. Most of the business is made up of customers with operations in both the USA and Canada. Large publishers and printers are served directly, but most products are delivered through regional and nationwide merchants.

### Undercapacity

The North American fine paper market has experienced some capacity closures over the last few years. In contrast to the European coated fine paper market, there is undercapacity in North America. Total annual coated fine paper capacity stands at 4.8–5.0 million tonnes, whereas demand is around 6.4 million tonnes. ●

[www.storaenso.com/na](http://www.storaenso.com/na)

# Growing profitably

together with customers

Stora Enso Packaging Boards consists of the Consumer Boards, Speciality Papers and Industrial Packaging business areas. Excellent customers, high-quality products, strong asset quality and cost-effective integrated pulp and board mills form the basis of the division's ongoing high performance. Stora Enso Packaging Boards aims to be the leading supplier of fibre-based and composite packaging materials, by achieving high market share in selected

market and business segments and being customers' preferred supplier. Sustainability is an important aspect of all operations. A broad product range includes both primary and recycled fibre-based products. Pulp is produced in-house at the Group's own pulp mills, which provides solid control over manufacturing costs and contributes to the division's capability to generate a good return and ensure the future development of the business.

Stora Enso Packaging Boards' assets are among the best in the industry, with support infrastructure, such as pulp and energy supply, that exceeds the global industry average.

Stora Enso's Asset Performance Review and Profit 2007 programmes included divestments and closures in 2006, and increased efforts to make savings in variable costs and introduce changes in the production and sales mix.

### Market continues to grow

Stora Enso is a leading supplier of consumer board, speciality paper and cores for global markets, and a leading regional supplier of corrugated packaging in a number of Nordic and Eastern European countries. Stora Enso has a particularly strong market share in primary fibre-based liquid packaging board, cupstock, graphical board, cigarette board and laminating paper in Western Europe.

"Paper and board consumption is increasing most rapidly in Russia, Eastern Europe, Asia and Latin America – and Stora Enso is aiming to grow with its key customers and gradually strengthen its market presence on the new growth markets," says Kai Korhonen, Senior Executive Vice President, Stora Enso Packaging Boards.

### New plants to Russia and China

Stora Enso is expanding its production capacity in Russia in industrial packaging, and building a third corrugated packaging plant. Corenso will start up a new core manufacturing plant in China in 2007 and rebuild a paper machine for coreboard production at Wisconsin Rapids Mill in North America. Expanded recycling operations in Poland provide a strong raw material base for Stora Enso mills using recycled fibre, close to fast-growing markets.

Paper and board account for the largest share of the packaging materials market. Driven by GDP and population growth, the packaging market is expected to continue growing over the next few years. Food remains the largest end-use in consumer packaging, and is continuing to grow rapidly. The fastest growth is being seen in healthcare packaging, however. Stora Enso cooperates with packaging converters and brand owners to respond to changing demands and ensure the competitiveness of fibre-based materials. New packaging solutions are developed based on this cooperation and vertical innovation in the value chain.

### Nordic developments

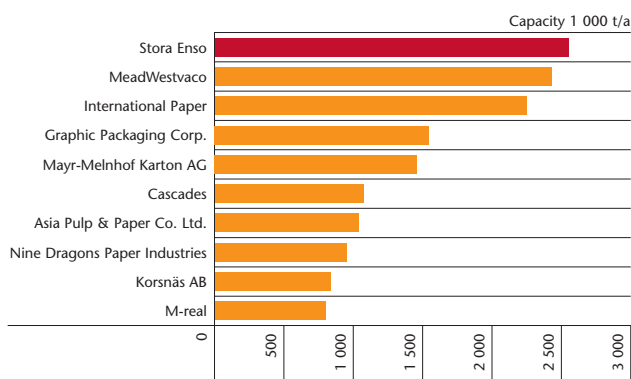
The Energy 2005 project was completed at Skoghall Mill in Sweden, and will

improve the competitiveness of the mill's production base by enhancing energy efficiency and enabling cost-effective board production with low emissions. The mill's oil requirements will be reduced by 75%, or 60 000 m<sup>3</sup>/a, and electrical self-sufficiency will increase from 15% to approximately 40%.

At Fors Mill, a project is under way to upgrade the board machine 2. Valued at EUR 35 million, this investment will increase the long-term competitiveness of the board machine. Cost efficiency, product quality and energy supply will be improved, and capacity will increase slightly, by 13 000 tonnes.

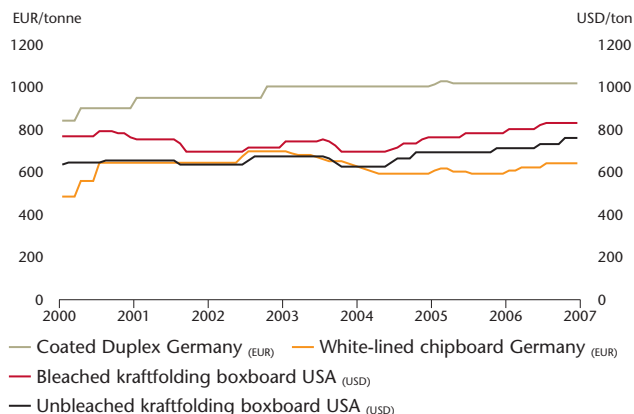
Restructuring at Stora Enso Packaging will improve the efficiency of corrugated board production at Lahti and Heinola plants. The possibilities for producing biodiesel alongside primary production are being studied in Finland, using existing infrastructure and logging residue, cut-offs and bark as raw material for a competitive second-generation biofuel. ●

### World's leading cartonboard producers



Source: Pöyry

### Packaging board prices in Germany and the USA 2000–2006



Source: PPI This Week, Pulp & Paper Week



### Market leader in consumer board

**Stora Enso Consumer Boards** produces a wide range of packaging and graphical board covering all categories: primary fibre-based solid-bleached sulphate board, folding boxboard, board produced from chemi-thermo-mechanical pulp and recycled board. A large variety of barrier coatings covers the needs of various end-uses and consumer packaging applications.

Stora Enso is one of the world's leading suppliers of liquid packaging board, cupstock, carton board and graphical board, and has launched a number of innovative solutions and complete packaging concepts. Consumer Boards mills are located in Sweden, Finland, Germany and Spain.

### World's largest producer of speciality paper

**Stora Enso Speciality Papers** is a worldwide supplier of speciality paper, with four mills in Finland, Germany and the United States. The product range includes high-quality flexible packaging, technical and label papers. A new barrier

paper family has been designed for demanding lidding and pouch applications. Technical papers are produced for the pressure-sensitive and variable image print (VIP) markets.

### Broad industrial packaging offering

The **Industrial Packaging** business area produces corrugated packaging, cores and industrial paper. Corrugated packaging includes sales packages for food and non-food products, transport packages, display stands, corrugated sheets, paper roll and sheet packing systems, and packaging machines. Production units are located in Finland, Sweden, Russia, Latvia, Estonia, Lithuania, Hungary and Poland.

Corenso United is a leading producer of coreboard and tailor-made cores and tubes for industrial use. These are mainly used by paper and board, textile yarn, plastic film and flexible packaging, and metal foil manufacturers. Corenso has four coreboard mills and 14 core factories in Europe, China and North America, and associated companies in Canada and Spain.

The industrial paper range includes SC fluting, kraft-top liner, testliner and recycled fluting, paper sacks, sack and kraft papers. The main mills are located in Finland and Poland. ●



### New corrugated packaging plant to serve the growing Russian market

Stora Enso has started building its third corrugated packaging plant in Russia, at Lukhovitsy, southeast of Moscow. Production will start up in the first quarter of 2008.

The market for corrugated packaging is growing rapidly in Russia and Eastern Europe. The annual growth in transport packaging is 5–10%, while the market for corrugated sales packaging is growing even faster. Based on this growth, Stora Enso has targeted becoming the leading producer of corrugated board in European Russia.

Stora Enso has introduced a number of new high-quality corrugated packages on the Russian market, mainly serving the needs of the food, beverage, cigarette and electronics industries. Reliable supply, quick response times, and active product development are strong sale arguments for customers that represent both international and Russian brands.

A strong presence on the market, quality products and high standards of service have made Stora Enso the market-leading brand in Russia. Stora Enso's first corrugated packaging plant in Russia started up at Balabanovo in 1998,

and the second unit, at Arzamas, in 2004. The new plant will be centrally located between these facilities, and will help guarantee reliable deliveries of growing volumes to customers in the Moscow region.

The new plant will have an annual production capacity of 150 million m<sup>2</sup> of corrugated board. The Balabanovo and Arzamas plants employ 500 people and produced a total of 260 million m<sup>2</sup> of corrugated board in 2006.



## Competitiveness from local market presence

Local customer service and the ability to respond to customers' needs rapidly are among the key success factors of Stora Enso Consumer Boards' graphical and carton board business. A network of sales companies and ServiceCentres give customers easy access to the product range.

Over 80% of carton board sales are custom sheet sizes, typically delivered in small lots of two to three tonnes. Competitiveness in this environment requires efficient logistics and sheeting services, which are provided by Consumer Boards' mills and dedicated ServiceCentres in central locations across Europe.

### Optimal locations

ServiceCentres stock a range of board grades and are equipped with high-performance sheeting machinery. Based on a sheeting capacity of 80 tonnes a day, the ServiceCentre Baienfurt in Germany offers ex-mill deliveries within two working days from standard sheet stock and within five working days from reel stock.

The ServiceCentre Cartiberia in Spain serves customers with a number of board grades from the Barcelona, Ingerois, Skoghall, Fors and Imatra mills within three to five days ex-mill. ServiceCentre logistics benefits from their excellent location and their high level of automation and modern working methods.

### Boosting demand

Differentiation is a growing need for consumer goods brand owners and retailers. This is creating new expectations in respect of suppliers. The fact that the size of deliveries is getting smaller and that new products are being introduced at an ever-faster pace are particular challenges. Consumer Boards' ServiceCentres play an important role here in making grades from all of the division's mills available to customers close to their locations.

"This enables brand owners to move rapidly, which generates clear added value and gives us the chance to leverage

demand," says Ohto Nuottamo, Senior Vice President, Carton Boards.

### Supply chain optimisation

Since supply chain optimisation requires in-depth knowledge of the demand drivers in the entire value chain, Consumer

Boards aims at close cooperation with both converters and brand owners.

"The market knowledge of our staff at our various locations is vital for managing customer relationships effectively and really makes our sales companies a key asset for us," says Nuottamo. ●





# Improving performance through determined action

Stora Enso Forest Products implemented a number of measures to improve profitability during 2006. Stora Enso Timber and Wood Supply continued to investigate improvement opportunities and made a number of changes to their organisations. The Stora Enso Timber organisation, and its production and sales units, went through some significant changes in 2006, and made important progress in moving

towards improved financial performance. The Forest Products division continued to expand in new growth markets. Stora Enso focused on developing its strategic wood fibre assets in Latin America and in China. As the demand for wood raw material is increasing all the time, flexible, sustainable and efficient wood supply and optimised wood utilisation are key success factors for the Group.



The Forest Products division comprises Stora Enso Timber and Stora Enso Wood Supply, and is responsible for optimising wood flows and finding the most profitable uses for wood.

Stora Enso Timber produces sawn and value-added products for the construction and joinery industries and the wood products trade. Its vision is to be the world's best wood products company. Key strategic issues include improving the division's product and market portfolio, creating a competitive operational platform and enhancing cost competitiveness.

Wood Supply is responsible for managing wood procurement and deliveries to Stora Enso's mills in Europe, and for coordinating plantation operations in Asia and Latin America. Wood Supply's vision is to be the leading and most competitive wood supplier in the industry. It aims to deliver value to its customer mills by maintaining low wood-related costs.

**Stora Enso Timber: Optimising asset structure**

The biggest challenge – and the biggest opportunity – for Stora Enso Timber are to optimise its portfolio of production units in a very volatile market. Reductions in operating volumes and personnel were made at some production units in 2006 in response to the challenging operating environment. Stora Enso Timber will continue to review its assets by monitoring the market and operations on an ongoing basis.

**Investing in Russia**

Stora Enso Timber is a leading player on the Eastern European market. It has a strong asset base in the Czech Republic, Russia and the Baltic Countries, where the demand for Stora Enso Timber's products is increasing.

Stora Enso Timber acquired a sawmill in southern Poland in late 2006. Stora Enso sees Poland as a country with excellent raw material potential and an increasing demand for wood products.

Stora Enso announced in 2006 that it will invest EUR 31.5 million in its

Nebolchi Sawmill, and EUR 12.5 million in its Impilahti Sawmill. These investments will upgrade the sawmills to manufacture value-added products and improve Stora Enso's access to the fast-growing building material market in Russia.

**Cooperation in Latin America**

The Group acquired assets from International Paper in the state of Paraná in Brazil in 2006. Known as Stora Enso Arapoti, these assets include a sawmill with an annual capacity of 150 000 m<sup>3</sup> of sawn timber. Stora Enso has started exclusive negotiations with a Chilean forest products company, Arauco, on joint ownership of Stora Enso Arapoti. The negotiations concern mainly the sawmill and plantations.

**Wood Supply: Streamlining the supply chain**

Fibre accounts for 20% of Stora Enso's costs. By establishing direct, long-term relationships with suppliers and working towards a flexible supply chain, Wood Supply aims to secure cost-efficient, uninterrupted wood flows to Stora Enso's mills. This involves optimising wood procurement methods in all areas.

**Reorganising operations**

Wood Supply worked to improve its performance in 2006 mainly through improvements in logistics and by investigating outsourcing opportunities.

Wood Supply's organisation has been streamlined, and personnel have been reduced in Finland, Russia and Sweden, for example. In Finland, the focus has been on reorganising and outsourcing mill terminal operations.

In Russia, where procurement volumes are increasing, Wood Supply has consolidated its operations and reorganised and streamlined its logging companies. Flexibility is a constant priority in a turbulent operating environment such as Russia.

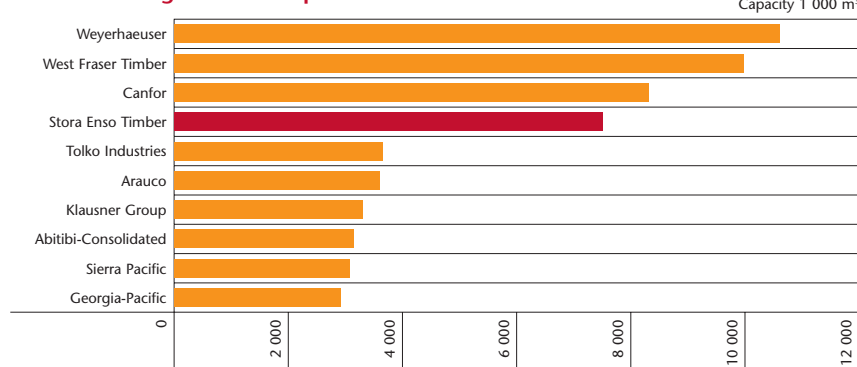
**Increasing demand**

Keeping up with the growing demand for wood raw material is a challenge for Stora Enso. Mobilising wood from core procurement areas and opening up new supply sources are key issues. The growing biofuel market means more competition for wood. Wood Supply is taking a proactive approach to biofuel, and sees the area as an opportunity rather than a threat.



Read more about the Group's wood procurement in the Sustainability 2006 report on pp. 16–19.

**World's leading sawnwood producers**



Source: Stora Enso Timber

**Wood Products – Strong product portfolio**

Stora Enso Timber provides product and service solutions to wood product industries and the trade worldwide. Stora Enso Timber is one of the world’s leading suppliers of wood products, with facilities in 10 countries across Europe and its own global sales network.

Demand for Stora Enso Timber’s products is mainly driven by the construction market. Wood products have good long-term demand prospects globally as a technically attractive, cost competitive and truly renewable building material.

Stora Enso Timber focuses on mass-customised, value-added products for industrial end-uses. These include glue-laminated, stress-graded and finger-jointed products and components for the construction and joinery industries. A wide range of sawn and processed wood products is supplied to timber retailers, merchants and importer-distributors.

**Wood Supply**

Wood Supply manages wood and biomass fuel deliveries to Stora Enso’s mills in Europe, and coordinates plantation operations in Asia and South America. It is also responsible for the Group’s global wood fibre strategy and sustainability issues related to wood, biomass and pulp.

Wood Supply operates six business units: Baltic, Continental Europe, Finland, Russia, Sweden and Plantations.



Seedlings from the nursery in Guangxi, China will soon be planted in Stora Enso’s expanding plantations.

In addition, Stora Enso has two wood supply units in North America. Wood Supply U.S. is responsible for wood procurement for the Group’s US operations, while Stora Enso Port Hawkesbury Mill in Canada is supplied by its own Woodlands Unit.

Stora Enso’s wood supply units procured a total of 56.7 million m<sup>3</sup> of wood in 2006, of which over 45.4 million m<sup>3</sup> were delivered to Stora Enso’s own mills, while the rest was sold externally. Most of the wood procured from Europe and North America came from small private forest land, larger state-owned holdings and forest holding companies.



Read more about the Group’s plantations in the Sustainability 2006 report on pp. 18–19.

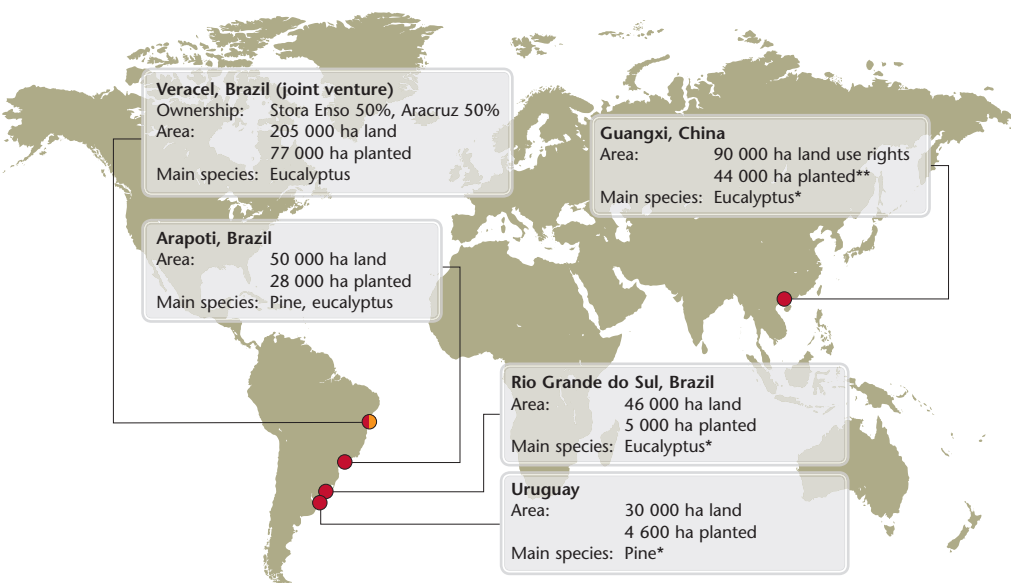
**Developing the Group’s plantation assets**

Stora Enso divested its Celbi plantations in Portugal in August 2006, and continued to grow its strategic wood fibre assets in Latin America and China. The Group purchased a paper mill and a sawmill, together with about 50 000 ha of land, in Arapoti in the state of Paraná, Brazil. Some 25 000 ha of the land is planted with pine and 3 000 ha with eucalyptus. Stora Enso has acquired 76 000 ha of land in Rio Grande do Sul in Brazil and in Uruguay, and planted about 10 000 ha with eucalyptus and pine.

More land was also acquired at Veracel, Brazil, increasing the total amount of land by 25 000 ha to 205 000 ha. The expanding plantations are planned to supply a second fibre line at Veracel in the future.

In southern Guangxi in China, Stora Enso acquired additional land use rights to approximately 30 000 hectares. This increased the total area to some 90 000 ha, of which about 44 000 ha is planted. The aim is to create a sustainably managed fibre base of 160 000 ha to support the establishment of an integrated pulp and paper mill in Guangxi.

**Stora Enso’s plantations and land areas as of 31 December 2006**



\* Planned main species  
\*\* Eucalyptus and other species



## Improvement measures deliver good results

Stora Enso Timber's strategy since 2000 has focused on growth, through geographic expansion and becoming a market leader in various value-added wood products. This has seen Stora Enso Timber become a global industry leader, based on expansion in Eastern Europe and a broader product portfolio. The operating environment has remained very challenging, however, and overall profitability has been below-target. A turnaround programme was launched in 2005, and enabled an operating profit of EUR 59.1 million to be recorded in 2006, compared to EUR -3.1 million in 2005



*Stora Enso Timber aims to build its competitiveness by adding value to its products and services.*

**T**he turnaround programme has included a broad range of improvement measures, such as selective asset restructuring and efficiency improvement actions at mills, reorganising the sales network, and aggressive cost structure improvements. Investments designed to upgrade assets in Russia and strengthen Stora Enso Timber's position in engineered wood products have also been important.

### Optimising operations

Asset restructuring has consisted of a broad range of actions targeted at strengthening the overall asset portfolio. The divestment of Stora Enso's Linghed

Sawmill was finalised in March 2006. Several mills, mainly in Austria, Estonia and Finland, have changed their concepts, and downsized capacities significantly. Veitsiluoto Sawmill, which had been idle since June 2005 due to severe profitability problems, was restarted in spring 2006 at a lower volume. Asset restructuring will continue at mills where competitive operations are not possible in the long term.

Stora Enso Timber has exceeded the original targets set in the Profit 2007 programme. Actions were focused on reaching permanent structural improvements, and the majority of results were achieved through reductions in fixed and administration costs.

The restructured global sales network provides a more cost-efficient and flexible organisation better suited to rapidly changing markets. Based on a regional structure, it gives customers easier access to Stora Enso Timber's product offering and expertise.

### Changes will continue

Stora Enso Timber will continue to focus on keeping costs in check, and will build its future competitiveness on strategic pillars that include a focus on selected growth segments, adding value to products and services, maintaining a competitive asset portfolio and being prepared for restructuring when necessary. ●



*In addition to various training programmes, employees also receive on-the-job training. Mathias Forsgren and Maria Eliasson go through the process at Kvarnsveden Mill in Sweden.*

## Building better performance

“2006 was a year of transition for Stora Enso, towards building better future performance. The Group’s profit improvement programmes, Profit 2007 and the Asset Performance Review, have affected our employees in many ways, and will continue to do so. Supporting and leading the organisation through the changes created by these programmes is one of our key challenges. It is essential that the Group continues to develop a pool of talented and competent people that meet today’s and tomorrow’s global business needs,” says Gary Parafinczuk, Executive Vice President of Corporate Human Resources & Business Excellence.

**S**tora Enso aims to create a global high-performance organisation with motivated employees. Operational excellence achieved through a competent organisation forms an important component of the Group’s strategy.

Stora Enso’s human resources strategy focuses on three key success factors: performance culture, competence development, and attracting and retaining talent. Stora Enso measures and monitors these key success factors to ensure progress towards its human resources vision.

### **Aiming for high performance**

All of the Group’s business units employ a structured concept and approach to raising their performance levels through an organisation that consistently outperforms Stora Enso’s competitors and creates a motivational environment for employees.

A number of units improved their performance considerably during 2006. One example is Summa Mill, which was placed under scrutiny as part of the Asset Performance Review programme. Thanks to a number of changes made by

employees, the mill has succeeded in achieving some strong improvements.

One of the tools that helps Stora Enso’s units work towards higher performance in a structured way is the Group’s Business Excellence Guide. Based on total quality management principles, the Guide establishes an assessment framework for continuous improvement and helps standardise the Group’s approach across business units.

One of the top priorities in a high-performance culture is excellent occupational health and safety performance.



Reducing accident rates and absenteeism is an ongoing ambition for Stora Enso.

### Global talent management

One of the key issues for Stora Enso is to ensure that the Group has an appropriate pool of competent and talented people. The Group's Management Audit Programme provides a global approach to talent management. This is an annual process that assesses talent and creates individual development and succession plans.

As part of efforts to develop key talent, Stora Enso also has a number of Group-wide management development programmes designed to promote Stora Enso's performance culture and leadership excellence. Individuals are nominated annually to attend the Stora Enso Executive Programme, the Stora Enso Manager Programme and the Stora Enso Talent Programme. In addition to these Group-wide programmes, Stora Enso has regional and country-level training programmes covering all levels of the organisation.

The number of training days per employee in 2006 was 3.1, which is virtually the same as in 2005. Stora Enso needs to ensure that its people are provided with the best opportunities to develop their competences. In order to build better performance, the Group will also need to ensure that career development and training are emphasised over the next couple of years. Personnel turnover increased slightly but is relatively stable.

As a global company, Stora Enso offers a wide range of career opportunities in different countries. Initiatives aimed at increasing the development and mobility of personnel within the Group include the Go! Programme, a rotation initiative for early career talents. Programmes like this help Stora Enso promote the diversity of its employees.

"As a global company, we want to utilise international diversity and make it work for us as a competitive advantage," says Gary Parafinczuk.

Other talent management initiatives include maintaining and managing a

pool of people who are experienced and available for project work in new growth markets.

### Recruiting in new areas

New growth markets – such as China, Russia and Latin America – are key strategic areas for Stora Enso and require a special focus on human resources to ensure success from an organisational performance perspective. The Group must ensure adequate global and local coordination and cooperation in issues such as local workforce planning, integrating Stora Enso's mission, vision, and values into the new organisations and adopting administration systems.

### Responsible reductions

Stora Enso's personnel reductions amounted to 3 710 people in 2006. These reductions were part of the Profit 2007 and Asset Performance Review programmes announced in 2005. The reductions explain why the Group's total number of employees has decreased.

Stora Enso follows a consistent approach, tailored to the legal requirements and redundancy practices of the countries in which it operates, when downsizing operations. To ensure that the process is handled as responsibly and ethically as possible, Stora Enso has implemented corporate-wide guidelines for workforce reductions.

### Efficient administration

Implementing more efficient human resources administration is one of the components of Stora Enso's Profit 2007 programme, and human resources organisations across the Group are being restructured with this in mind. Human resources-related shared service projects are under way in Finland, Sweden and Germany. A global human resources data management system is under development to support these efforts.

Key figures	2004	2005	2006
Average number of employees	43 779	46 166	45 631
Sales/employee, EUR	283 145	285 654	319 824
Personnel turnover, %*	5.2	4.0	5.6
Training days/employee	3.4	2.8	3.1
Absenteeism due to sickness and accidents, % (of total theoretical working hours)	4.6	4.5	4.5

\* Based on number of permanent employees who left Stora Enso voluntarily.



Stora Enso aims to create a motivational environment for employees. Debbie Weber is based at the Niagara Mill in North America.



Read more about Social Responsibility in the Sustainability 2006 report on pp. 34–41.



# Corporate Governance

Stora Enso is strongly committed to sound principles of corporate governance. The Group strives to apply best practices and comply with current rules and regulations in this field.

The duties of the various bodies within Stora Enso Oyj (Stora Enso or the Company) are determined by the laws of Finland and by the Company's corporate governance policy, which complies with the Finnish Companies Act and the Finnish Securities Market Act. The rules and recommendations of the Helsinki, Stockholm and New York Stock Exchanges are also followed, where applicable. This corporate governance policy is decided by the Board of Directors (Board).

The Board and the Chief Executive Officer (CEO) are responsible for the management of the Company. Other governance bodies have an assisting and supporting role.

Stora Enso prepares annual and interim financial accounts conforming to International Financial Reporting Standards (IFRS). These reports are published in Finnish, Swedish, English and German. In addition, Stora Enso makes an annual reconciliation with US GAAP (Form 20-F) as required by the US Securities Exchange Commission (SEC).

The Company's head office is in Helsinki, Finland. It also has an international office in London, United Kingdom and head office functions in Stockholm, Sweden.

Stora Enso has one or two official auditors, as decided by the shareholders at the Annual General Meeting (AGM).

To the maximum extent possible, corporate actions and corporate records are taken and recorded in English.

## Objectives and composition of governance bodies

The decision-making bodies with responsibility for managing the Company are

the Board and the CEO. The operations of the Company are co-ordinated through the Executive Management Group (EMG), Management Group (MG) and various committees.

Day-to-day operational responsibility rests with the divisional managements and their operation teams supported by various staff and service functions.

### Board of Directors

Stora Enso is managed by the Board under international corporate governance principles.

According to the Company's Articles of Association, the Board comprises 6–11 ordinary members appointed by the shareholders at the AGM for a one-year term. It is the policy of the Company that the Board shall have a majority of independent directors. To be considered "independent", the Board must resolve that a director has no material relationship with the Company other than as a director. Currently, the Board has ten

ordinary members: nine non-executive members who are independent and not affiliated with Stora Enso and one executive member (CEO).

All directors are required to deal at arm's length with the Company and its subsidiaries and to disclose circumstances that might be perceived as a conflict of interest.

The shareholders at the AGM decide the remuneration of the Board members (including the remuneration of the members of the Board Committees). As a policy, remuneration is paid to non-executive members only.

The Board supervises the operation and management of Stora Enso and decides on significant matters relating to strategy, investments, organisation and finance.

The Board is responsible for overseeing management and for the proper organisation of Company operations. It is likewise responsible for overseeing the



proper supervision of accounting and control of financial matters.

The Board has defined a working order, the principles of which are published in the annual report and on the Company's website.

The Board elects a Chairman and a Vice Chairman from among the non-executive Board members and appoints the CEO and heads of divisions and staff functions. The Board approves the main organisational structure of the Company.

The Board reviews and determines the compensation of the CEO.

The Board evaluates its performance annually. The Board also reviews the corporate governance policy annually and amends it when required.

The Board's work is supported through its committees – the Financial and Audit Committee and the Compensation Committee. Each committee's chairman and members are appointed by the Board annually.

The Board meets at least five times a year. The non-executive Board members meet regularly without executive members in connection with the Board meetings.

Board remuneration			
EUR	Chairman	Vice Chairman	Board Member
2004	135 000	85 000	60 000
2005	135 000	85 000	60 000
2006	135 000	85 000	60 000

Board interests as of 31 December 2006		A shares	R shares
Claes Dahlbäck, Chairman		2 541	19 529
Ilkka Niemi, Vice Chairman		–	–
Gunnar Brock		–	4 000
Lee A. Chaden		–	3 500*
Dominique Hériard Dubreuil		–	500
Jukka Härmälä, CEO		–	13 188
Birgitta Kantola		–	1 500
Jan Sjöqvist		508	1 943
Matti Vuoria		–	9 000
Marcus Wallenberg		2 541	4 715

\* ADRs representing R shares

### In 2006

The Board of Directors had ten members and convened nine times during the year. On average, directors attended 90% of the meetings.

### Chief Executive Officer (CEO)

The CEO is in charge of the day-to-day management of the Company in accordance with instructions and orders issued

by the Board. It is the duty of the CEO to ensure that the Company's accounting methods comply with the law and that financial matters are handled in a reliable manner.

The Board of Directors approves the main organisation, including the functions reporting to the CEO. Currently the CEO is directly in charge of the following functions, which also report to

## Working Order of the Board of Directors

The working order describes the working practices of the Board of Directors. A summary of key contents is presented below.

### Board meetings

- regularly, at least five times a year, according to a schedule decided in advance;
- special Board meetings shall, if requested by a Board member or the CEO, be held within 14 days of the date of request;
- agenda and material shall be delivered to Board members one week before the meeting.

### Information

- the Board shall receive information monthly concerning financial performance, the market situation and significant events within the Company's and the Group's operations;
- Board members shall be informed about all significant events immediately.

### Matters to be handled at Board meetings

- matters specified by the Finnish Companies Act;
- approval of business strategy;
- organisational and personnel matters
  - decisions concerning the basic top management organisation;
  - decisions concerning the composition of the Executive Management Group;
  - remuneration of the CEO;
  - appointment and dismissal of the CEO and heads of divisions and other senior officers in the EMG;
  - appointment of Board Committees (including chairmen);
- economic and financial matters
  - review of annual budget;
  - approval of loans and guarantees;

- investment matters
  - approval of Group's investment policy;
  - approval of major investments ;
- other matters
  - report of the CEO on the Group's operations;
  - reports of the Compensation Committee and Financial and Audit Committee by the chairmen of the respective committees. The Nomination Committee's recommendations and proposals shall be reported to the Board by the Chairman of the Board.
  - approval and regular review of Corporate Governance and the charters of the Board Committees;
  - annual self-assessment of Board work and performance;
- other matters submitted by a member of the Board or the CEO.

him/her: the Business divisions, CFO, Market Services, Corporate Communications, Corporate Services, Corporate Technology and Asia Pacific, and Latin America. The CEO is also responsible for preparatory work with regard to Board meetings. In addition, he/she supervises decisions regarding key personnel and other important operational matters.

The Chief Financial Officer (CFO), who is responsible for Finance and Strategy, (currently covering Strategy, Mergers and Acquisitions, Investments, Finance, Accounting, Legal and Investor Relations), also acts as deputy to the CEO.

#### Executive Management Group (EMG)

The EMG is chaired by the CEO. The EMG members are appointed by the Board. Currently, it comprises the CFO, four divisional heads (Publication Paper, Fine Paper, Packaging Boards and Forest Products) and the heads of Market Services and Corporate Services.

The EMG's tasks and responsibilities are investment planning and follow-up, control of mergers and acquisitions and divestments, preparation of strategic guidelines, allocation of resources,

review of key day-to-day operations and operational decisions, preparatory work with regard to Board meetings and review of the main features of the sales network.

The EMG meets regularly, at least once a month, and as required.

#### In 2006

The EMG had eight members and convened 20 times during the year. Important items on the agenda in 2006 were divestment and closures related to the APR programme, co-ordination of the Profit 2007 programme, and the acquisitions of the Arapoti paper mill and related assets in Brazil.

#### Management Group (MG)

The tasks and responsibilities of the MG are to review the budget, Company strategy and business development.

The MG is chaired by the CEO. The MG comprises members of the EMG and additional members appointed by the CEO. The MG meets approximately four times a year.

#### In 2006

The MG had 20 members and convened four times.

#### Board Committees

The tasks and responsibilities of the Board Committees are defined in their charters, which are approved by the Board. All the committees evaluate their performance annually, are allowed to use external consultants and experts when necessary and shall have access to all information needed. Each committee's chairman and members are appointed by the Board annually.

#### Financial and Audit Committee

The Board has a Financial and Audit Committee to support the Board in maintaining the integrity of the Company's financial reporting and the Board's control functions. It regularly reviews the system of internal control, management and reporting of financial risks and the audit process. It makes recommendations regarding the appointment of external auditors for the parent company and the main subsidiaries.

The Committee is comprised of 3–5 non-executive Board members who are independent and not affiliated with the Company. At least one Committee member must be a financial expert who has significant knowledge and experience in accounting and accounting principles applicable to the Company.

The Financial and Audit Committee meets regularly at least four times a year. The Committee members meet the external auditor without the management being present in connection with its meetings. The Chairman of the Committee presents a report on each Financial and Audit Committee meeting to the Board.

The tasks and responsibilities of the Financial and Audit Committee are defined in its charter, which is approved by the Board. Financial and Audit Committee members may receive compensation solely based on their role as directors. The compensation is decided upon by the shareholders at an AGM.

#### Summary of charter

##### Main tasks

- to support the Board in maintaining the integrity of the Company's finan-



Financial and Audit Committee members from left to right, standing: Ilkka Niemi and Claes Dahlbäck. Seated: Birgitta Kantola and Jan Sjöqvist. Lee A. Chaden is missing from the picture.



cial reporting and the Board's control functions;

- to review the system of internal control, management and reporting of financial risks and the audit process regularly;
- to make recommendations regarding the appointment of external auditors for the parent company and the main subsidiaries.

### Composition

- 3–5 non-executive Board members who are independent and not affiliated with the Company;
- at least one Committee member must be a financial expert who has significant knowledge and experience in accounting and accounting principles applicable to the Company;
- Financial and Audit Committee members may receive compensation based solely on their role as Directors, such compensation to be decided by the shareholders at an AGM.

### Meetings and reporting to the Board

- the Financial and Audit Committee meets regularly at least four times a year;
- regular participants in the Committee's meetings
  - external auditors;
  - CFO and SVP Internal Audit;
  - Legal Counsel acting as secretary to the Committee;
  - other persons such as SVP Finance, General Counsel and Chief Accounting Officer invited by the Chairman;
- the Committee members meet the external auditors without the management being present in connection with its meetings;
- the Chairman of the Committee presents a report on each Financial and Audit Committee meeting to the Board.

### In 2006

The Financial and Audit Committee comprised five members in 2006: Jan Sjöqvist (Chairman and appointed Financial Expert), Lee A. Chaden, Claes



Compensation Committee members from left to right, standing: Ilkka Niemi and Matti Vuoria. Seated: Dominique Hériard Dubreuil and Claes Dahlbäck.

Dahlbäck, Birgitta Kantola and Ilkka Niemi. The Committee convened seven times. In addition to the regular tasks based on the Committee's charter, during 2006 the Committee focused on the assessment of internal controls over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act.

### Remuneration

Chairman EUR 20 000 per annum and member EUR 14 000 per annum as decided by the AGM.

### Compensation Committee

The Board has a Compensation Committee that is responsible for recommending, evaluating and approving executive nominations and compensations (including the CEO), evaluating the performance of the CEO, and making recommendations to the Board relating to management compensation issues generally, including equity incentive compensation plans. The Board appoints the CEO and approves his/her compensation.

The Committee is comprised of 3–4 non-executive Board members who are independent and not affiliated with the Company. The Compensation Committee meets regularly at least once a year.

The Chairman of the Committee presents a report on each Compensation Committee meeting to the Board. The tasks and responsibilities of the Compensation Committee are defined in its charter, which is approved by the Board.

### Summary of charter

#### Main tasks

- responsible for recommending, evaluating and approving executive nominations and compensations (including CEO);
- to evaluate the performance of the CEO;
- to make recommendations to the Board relating to management compensation issues;
- the Board appoints the CEO and approves his/her compensation.

#### Composition

- 3–4 non-executive Board members who are independent and not affiliated with the Company.

#### Meetings and reporting to the Board

- regularly at least once a year;
- the Chairman presents a report on each Compensation Committee meeting to the Board.

**In 2006**

The Compensation Committee comprised four members in 2006. The members were Claes Dahlbäck (Chairman), Dominique Hériard Dubreuil, Ilkka Niemi and Matti Vuoria. The Committee convened six times.

During 2006, the main tasks were to prepare organisational changes, the CEO's compensation, top management remuneration, short-term incentives based on performance improvement and long-term incentive structure.

**Remuneration**

Chairman EUR 10 000 per annum and member EUR 6 000 per annum as decided by the AGM.

**Nomination Committee appointed by the shareholders**

At the AGM, shareholders appointed a Nomination Committee to prepare proposals concerning:

- the number of members of the Board of Directors;
- the members of the Board of Directors;
- the remuneration for the Chairman, Vice Chairman and members of the Board of Directors;
- the remuneration for the Chairman and members of the committees of the Board of Directors.

The Nomination Committee comprises four members:

- the Chairman of the Board of Directors;
- the Vice Chairman of the Board of Directors;
- two members appointed annually by the two largest shareholders (one each) according to the share register of 1 October.

The Chairman of the Board of Directors convenes the Nomination Committee. A Nomination Committee member who is also a member of the Board of Directors may not be the Chairman of the Nomination Committee. The Nomination Committee presents its proposal for the Annual General Meeting to the Board of Directors annually before 31 January.

**In 2006**

The Nomination Committee comprised four members in 2006: the Chairman of the Board (Claes Dahlbäck), the Vice Chairman of the Board (Ilkka Niemi) and two other members appointed by the two largest shareholders, namely Markku Tapio (Finnish State) and Marcus Wallenberg (Knut and Alice Wallenberg Foundation).

This is different from the Helsinki Stock Exchange's recommendation that a Nomination Committee should be a Board Committee. Markku Tapio was elected Chairman of the Committee at its first meeting. During 2006, the main tasks of the Committee were to prepare the proposal for the AGM concerning Board members and their remuneration. The Nomination Committee convened twice during the year.

**Remuneration**

Remuneration of EUR 3 000 per annum is paid to members who are not members of the Board as decided by the AGM.

**Operative Committees****Investment Committee**

The Investment Committee is chaired by the CFO, head of Finance and Strategy. The Committee's members are appointed by the CEO.

The tasks and responsibilities of the Investment Committee are co-ordination of the investment planning and approval process, co-ordination of the investment completion audit and follow-up process, participation in the planning and execution of large investment projects in the Company's various geographical areas, and the drawing-up of recommendations on funds available for investments.

The Investment Committee meets at least six times a year and as required.

**In 2006**

The Investment Committee examined several major investment proposals and made recommendations on funds available for investment for consideration by the EMG.

Important items on the agenda in 2006 were the joint-venture agreement

with Shandong Huatai Paper in China, the third corrugated packaging plant at Lukhovitsy in Russia, upgrading and expanding sawmilling operations at the Nebolchi and Impilahti sawmills in Russia, and rebuilding of PM 3 at the Varkaus Mill, Finland. Additionally, the Investment Committee audited ten major projects started up in 2004 and 2005 to collect and share experience for future investment projects.

The Investment Committee had eight members and convened 14 times in 2006.

**Sustainability Committee**

The Sustainability Committee is chaired by the SEVP, Forest Products. The Committee's members, representing divisions and relevant staff functions, are appointed by the CEO. The Sustainability Committee meets regularly as required.

The tasks of the Sustainability Committee are to formulate corporate policy and strategy in environmental and social responsibility matters, to ensure that these policies and strategies are well established and respected throughout the Group, to co-ordinate and follow-up relations and communication with stakeholders such as governmental and non-governmental organisations, to take initiatives for the development of relevant management procedures and to produce a Sustainability Report annually.

**In 2006**

The major items on the agenda for the Sustainability Committee during 2006 included a new Sustainability Policy, a new reduction target for process water discharges, a new corporate stakeholder engagement process and a decision to define Stora Enso's carbon footprint and develop benchmark information. The Sustainability Committee had 12 members and convened twice in 2006.



Read more about sustainability governance in the Sustainability 2006 report on p. 7.

### **Research and Development (R&D) Committee**

The R&D Committee is chaired by the EVP, Corporate Technology and Asia Pacific. The Committee's members, representing the R&D organisation and the divisions, are appointed by the CEO.

The tasks of the R&D Committee are to secure a Group perspective on R&D with regard to its relevance, quality and efficiency, to establish R&D policy and strategy at Group level, to monitor future-oriented technology and product development, and to supervise external research.

The R&D Committee meets regularly as required.

#### **In 2006**

Important items on the agenda in 2006 were increasing Group-level activities in facilitating innovation and technology development, especially in the area of bioenergy, and implementation of the Forest-based Sector Technology Platform. The R&D Committee had seven members and convened once in 2006.

### **Disclosure Committee**

The Disclosure Committee supervises the reliability of the Company's financial reporting and disclosure processes. The Committee is chaired by the General Counsel, and the other permanent members are SVP Internal Audit, SVP Risk Management and Financial Platform, SVP Chief Accounting Officer and VP Investor Relations and Financial Communications. Other members are nominated by the CEO as required. The Disclosure Committee reports to the CEO and the CFO.

The Disclosure Committee meets regularly as required.

#### **In 2006**

The main tasks in 2006 were reviewing the Group's stock exchange releases, interim reviews and Annual Report, including the US version 20-F. In addition, the Disclosure Committee monitored the programme initiated to ensure compliance with the Sarbanes-Oxley Act Section 404, Management Assessment of

Internal Controls. The Disclosure Committee had five members and convened nine times.

### **Other supervisory bodies and norms Auditors**

The shareholders at the AGM annually elect one or two auditors for Stora Enso. The Financial and Audit Committee monitors the auditor selection process and gives its recommendation as to who should serve as auditor to the Board and to the shareholders at the AGM. The auditor(s) shall be an authorised public accounting firm or firms, which then appoint(s) the auditor responsible.

### **Internal Audit**

The operation of the Group's control and monitoring procedures is reviewed and tested by the Group's Internal Audit function under the supervision of the SVP, Internal Audit, who reports on a functional basis to the Financial and Audit Committee and CEO, and administratively to the CFO.

Internal Audit conducts regular audits at mills, subsidiaries and other Company units, implementing an annual audit plan approved by the Financial and Audit Committee.

### **Insider guidelines**

The Company complies with the insider guidelines of the Helsinki Stock Exchange. The Company's internal insider guidelines were updated in 2005 to comply with new legislation following the EU Market Abuse Directive. The guidelines are published and distributed throughout the Group.

The Company expects all its employees to act in the way required of an insider. All unpublished information relating to the Company's present and future business operations shall be kept strictly confidential.

The Company's insider register is publicly available and is maintained by the Finnish Central Securities Depository.

Public insiders are members of the Board, the CEO and his/her deputy, and the auditors. The CEO has decided that other public insiders shall be the mem-

bers of the EMG and nominated persons in legal, financial, accounting, corporate strategy, communications and investor relations functions.

The list of company-specific insiders is approved by the General Counsel and is not public. Company-specific insiders are for example members of the MG and members of the Corporate Accounting and Corporate Strategy teams.

Persons who participate in the development and preparation of a project such as a merger or acquisition are considered project-specific insiders. A separate project-specific insider register is maintained when considered appropriate by the General Counsel or his/her deputy.

During the closed period, insiders are not allowed to trade in the Company's securities. The period starts two weeks prior to the date when the results of a reporting period are announced. The dates are published in the financial calendar at [www.storaenso.com/investors](http://www.storaenso.com/investors).

### **US capital markets rules and requirements**

In relation to Section 302 of the Sarbanes-Oxley Act of 2002, Stora Enso has introduced procedures that require the respective management of the divisions and subsidiaries to certify the internal controls over the financial reporting process. These procedures and certifications provide the basis on which the CEO and the CFO of Stora Enso certify the consolidated financial statements with the Securities and Exchange Commission.

The provisions of Section 404 of the Act require Stora Enso's management to report, in the Form 20-F Annual Report for fiscal year 2006, on the effectiveness of internal control over financial reporting. The information relating to the assessment and any conclusions thereof will be set forth under the caption "Controls and Procedures" in Stora Enso's Annual Report on form 20-F for 2006. ●



# Board of Directors

## Claes Dahlbäck

*Chairman of Stora Enso's Board of Directors since December 1998*

*Independent member of the Board*

Born 1947. M.Sc. (Econ.), Ph.D. h.c. Swedish citizen.

Member of the STORA Board of Directors from May 1990 and Chairman of the Board from May 1997 until the merger with Enso in 1998. Chairman of Stora Enso's Compensation Committee since 23 December 1998, and a member of the Financial and Audit Committee since 22 March 2005. Member of the Nomination Committee.

Executive Director of the Board of Thisbe AB. Chairman of the Board of Vin & Sprit AB and EQT Funds, and a member of the Board of Goldman & Sachs Co.

President and CEO of Investor AB 1978–1999. Executive Vice Chairman of the Board of Investor AB 1999–2001 and Chairman of the Board 2002–2005. Vice Chairman of the Board of Skandinaviska Enskilda Banken 1997–2002. Member of the Board of Ericsson 1993–1996 and ABB 1991–1996.

Owens 2 541 A and 19 529 R shares in Stora Enso.

## Ilkka Niemi

*Vice Chairman of Stora Enso's Board of Directors since March 2005*

*Independent member of the Board since March 2001*

Born 1946. M.Sc. (Econ.). Finnish citizen.

Member of Stora Enso's Financial and Audit Committee since 19 March 2002, and the Compensation Committee since 18 March 2004. Member of the Nomination Committee.

Senior advisor and independent consultant on international finance. Chairman of the Board of Motiva Oy 2001–2006, and a member of the Board of Aker Finnyards Inc. since 2003.

CEO and member of the Board of the Finnish State Guarantee Board 1989–1997. Member of the Board and representative of the Nordic countries and the Baltic countries at the World Bank 1997–2000. Chairman of the Finnish Account-

ing Standards Board 1993–1996.

Owens no shares in Stora Enso.

## Gunnar Brock

*Independent member of Stora Enso's Board of Directors since March 2005*

Born 1950. M.Sc. (Econ.). Swedish citizen.

President and CEO of the Atlas Copco Group. Member of the Board of Lego AS and Teknikföretagen. Member of the Royal Swedish Academy of Engineering Sciences (IVA).

CEO of Thule International 2001–2002. President and CEO of Tetra Pak Group 1994–2000.

Owens 4 000 R shares in Stora Enso.

## Lee A. Chaden

*Independent member of Stora Enso's Board of Directors since March 2004*

Born 1942. MBA, B.Sc. (Ind. Eng.). American citizen.

Member of Stora Enso's Financial and Audit Committee since 22 March 2005.

Executive Chairman of Hanesbrands Inc. Member of the Board of Carlson Companies Inc. and several civic and non-profit organisations.

Executive Vice President of Sara Lee Corporation and CEO of Sara Lee Branded Apparel 2004–2006, Executive Vice President of Global Marketing and Sales of Sara Lee Corporation 2003–2004 and Corporate Senior Vice President of Human Resources 2001–2003. CEO of Sara Lee Branded Apparel-Europe 1999–2001.

Owens ADRs representing 3 500 R shares in Stora Enso.

## Dominique Hériard Dubreuil

*Independent member of Stora Enso's Board of Directors since March 2006*

Born 1946. B.A. (Law), M.A. (Public Relations). French citizen.

Member of Stora Enso's Compensation Committee since 21 March 2006.

Chairman of the Board of Rémy Cointreau. Chairman of Vinexpo Overseas and a member of the Board of Comité Colbert, the Institut National de la Recherche Agronomique (INRA)

and the Fédération des Exportateurs de Vins et Spiritueux de France.

Chairman of the Executive Committee of Rémy Cointreau 2000–2004

Owens 500 R shares in Stora Enso.

## Jukka Härmälä

*Chief Executive Officer of Stora Enso and a member of Stora Enso's Board of Directors since December 1998*

Born 1946. B.Sc. (Econ.), Hon. Ph.D. (Tech. and Econ.). Finnish citizen.

Joined Enso-Gutzeit in April 1970. Senior Vice President and a member of the Board of Management of Kansalliso-sake-Pankki (a predecessor of Nordea Bank) from February 1984 onwards. Rejoined Enso-Gutzeit in September 1988 as President and COO. Chairman of the Board of Enso-Gutzeit and President and CEO from January 1992 until the merger with STORA in 1998.

Vice Chairman of the Supervisory Board of Varma Mutual Pension Insurance Company, Vice Chairman of the Board of Finnlines Plc, Chairman of the Board of Outokumpu Oyj and the Board of the TT Foundation and a member of the Finnish Forest Industries Federation, the Research Institute of the Finnish Economy ETLA, the Finnish Business and Policy Forum EVA and the European Round Table of Industrialists (ERT). Co-chairman of the EU-Russia Industrialists' Round Table (IRT).

Vice Chairman of the Board of the Finnish Forest Industries Federation 1997–1998 and Chairman of the Board 1993–1996. Member of the Board of the Confederation of Finnish Industries EK in 2001, Vice Chairman of the Board in 2000, Chairman of the Board 1997–1999 and Vice Chairman of the Board 1993–1996. Chairman of the Board of Sampo plc 1993–2001.

Owens 13 188 R shares, and has 560 000 (1999–2005) and 60 000 (2006) options/synthetic options in Stora Enso.

## Birgitta Kantola

*Independent member of Stora Enso's Board of Directors since March 2005*

Born 1948. LL.M. Finnish citizen.



Front row, left to right: Dominique Hériard Dubreuil, Ilkka Niemi, Claes Dahlbäck and Jukka Härmälä. Back row, left to right: Matti Vuoria, Gunnar Brock, Marcus Wallenberg, Birgitta Kantola and Jan Sjöqvist. Missing from the picture: Lee A. Chaden.

Member of Stora Enso's Financial and Audit Committee since 22 March 2005.

Vice Chairman of the Board of Fortum Corporation. Member of the Board of Varma Mutual Pension Insurance Company, Nordea Bank AB, Vasakronan AB, Civitas Holding AB and Åbo Akademi University.

Vice President and CFO of International Finance Corporation (World Bank Group), Washington D.C. 1995–2000. Executive Vice President of Nordic Investment Bank 1991–1995.

Owens 1 500 R shares in Stora Enso.

### Jan Sjöqvist

*Independent member of Stora Enso's Board of Directors since December 1998*

Born 1948. M.Sc. (Econ.). Swedish citizen.

Member of the STORA Board of Directors from March 1997 until the merger with Enso in 1998. Chairman of Stora Enso's Financial and Audit Committee since 20 March 2003 and Financial Expert of the Financial and Audit Committee since 21 April 2004.

Chairman of the Board of Concordia Bus AB and ODEN Anläggningsentreprenad AB, and a member of the Board of Green Cargo AB and Lannebo fonder AB.

Managing Director of Swedia Networks AB 2002–2004 and President and CEO of NCC AB 1993–2001. Member of the Board of Swedia Networks AB 2001–

2004, SSAB Swedish Steel 2000–2003 and NCC AB 1988–2001.

Owens 508 A and 1 943 R shares in Stora Enso.

### Matti Vuoria

*Independent member of Stora Enso's Board of Directors since March 2005*

Born 1951. LL.M., B.Sc. (Arts). Finnish citizen.

Member of Stora Enso's Compensation Committee since 22 March 2005.

President and CEO of Varma Mutual Pension Insurance Company. Vice Chairman of the Board of Sampo plc. Member of the Board of Danisco A/S and Wärtsilä Oyj Abp.

Executive Vice President of Varma Mutual Pension Insurance Company between January 2004 and May 2004. Executive Chairman of the Board of Fortum Corporation 1998–2003. Vice Chairman of the Board of Danisco A/S 2002–2005 and a member of the Board 1999–2002.

Owens 9 000 R shares in Stora Enso.

### Marcus Wallenberg

*Independent member of Stora Enso's Board of Directors since December 1998*

Born 1956. B.Sc. (Foreign Service). Swedish citizen.

Vice President of Stora Feldmühle AG, a STORA subsidiary, from August 1990 until June 1993. Member of the

STORA Board of Directors from March 1998 until the merger with Enso in 1998. Member of Stora Enso's Financial and Audit Committee between 29 December 2000 and 22 March 2005. Member of the Nomination Committee.

Chairman of the Board of Skandinaviska Enskilda Banken AB, Saab AB and the International Chamber of Commerce (ICC). Vice Chairman of the Board of Ericsson, and a member of the Board of AstraZeneca PLC, AB Electrolux, Thisbe AB and the Knut and Alice Wallenberg Foundation.

President and CEO of Investor AB 1999–2005 and Executive Vice President 1993–1999. Member of the Board of Skandinaviska Enskilda Banken 2002–2005 and 1995–1999, Scania AB 1994–2005, Ericsson 1996–1998 and Saab AB 1992–1998.

Owens 2 541 A and 4 715 R shares in Stora Enso.

**Harald Einsmann**, independent member of Stora Enso's Board of Directors since December 1998 until his resignation on 21 March 2006.

Options/synthetic options were issued annually between 1999 and 2006.

To be considered 'independent', the Board must resolve that a director has no material relationship with the Company other than as a director.

Enso-Gutzeit became Enso in May 1996. STORA and Enso merged in December 1998.

# Executive Management Group



From left to right: Jussi Huttunen, Bernd Rettig, Pekka Laaksonen, Elisabet Salander Björklund, Jukka Härmälä, Hannu Ryöppönen, Kai Korhonen and Christer Ågren.

## Jukka Härmälä

*Chief Executive Officer*

Born 1946. B.Sc. (Econ.). Hon. Ph.D. (Tech. and Econ.). Finnish citizen.

For further information, see page 40.

## Jussi Huttunen

*Senior Executive Vice President, Market Services*

Born 1954. M.Sc. (Econ.). Finnish citizen.

Joined Enso-Gutzeit in 1979. Managing Director of Stora Enso UK 1999–2001 and Senior Executive Vice President, Stora Enso Fine Paper between January 2002 and April 2005. Member of Stora Enso's Sustainability Committee. Member of the Board of Directors of several subsidiaries and associated companies.

Owns 2 434 R shares, and has 165 000 (1999–2005) and 22 500 (2006) options/synthetic options in Stora Enso.

## Kai Korhonen

*Senior Executive Vice President, Stora Enso Packaging Boards*

Born 1951. M.Sc. (Eng.). eMBA. Finnish citizen.

Joined Enso's Varkaus Mill (previously A. Ahlström Osakeyhtiö) in 1977. Senior Executive Vice President, Newsprint 1998–2000, Senior Executive Vice President, North America 2000–2003 and Senior Executive Vice President, Stora Enso Paper between May 2003 and April 2005. Stora Enso Country Manager Finland from 1 January 2006. Member of Stora Enso's R&D and Sustainability Committees. Member of the Board of Directors of several subsidiaries and associated companies.

Deputy Chairman of the Board of the Finnish Forest Industries Federation from 1 January 2006 and a member of the Board of the Confederation of Finnish Industries EK from 1 January 2006

and a member of the Supervisory Board of Ilmarinen Mutual Pension Insurance Company from 6 April 2006.

Owns 2 435 R shares, and has 135 000 (1999–2005) and 22 500 (2006) options/synthetic options in Stora Enso.

## Pekka Laaksonen

*Senior Executive Vice President, Stora Enso Fine Paper*

Born 1956. M.Sc. (Econ.). Finnish citizen.

Joined Enso's Plywood Division in 1979. Senior Executive Vice President, Stora Enso Packaging Boards between December 1998 and April 2005. Stora Enso Country Manager Finland until 31 December 2005. Member of Stora Enso's Sustainability Committee. Member of the Board of Directors of several subsidiaries and associated companies.

Deputy Chairman of the Boards of Pohjolan Voima Oy and Suominen Corpo-



ration. Chairman of the Board of the Finnish Forest Industries Federation in 2005.

Owens 15 500 A shares, and has 180 000 (1999–2005) and 22 500 (2006) options/synthetic options in Stora Enso.

### **Bernd Rettig**

*Senior Executive Vice President, Stora Enso Publication Paper*

Born 1956. M.Sc. (Eng.).  
German citizen.

Joined STORA in 1982. Managing Director of Stora Enso Kabel GmbH 1996–1999 and Senior Executive Vice President, Magazine Paper between April 1999 and May 2003. Member of Stora Enso's R&D Committee. Member of the Board of Directors of several subsidiaries and associated companies.

President of the Association of German Paper Industry, Verband Deutscher Papierfabriken (VDP).

Owens 2 963 R shares, and has 225 000 (1999–2005) and 22 500 (2006) options/synthetic options in Stora Enso.

### **Hannu Ryöppönen**

*Senior Executive Vice President and Chief Financial Officer, Finance and Strategy. Deputy to the Chief Executive Officer*

Born 1952. B.A. (Business Admin.).  
Finnish citizen.

Joined Stora Enso as Senior Executive Vice President and Chief Financial Officer and Deputy to the CEO in September 2005. Chairman of Stora Enso's Investment Committee. Member of the Board of Directors of the following Stora Enso associated companies: Veracel Celulose S. A., Tornator Timberland Oy and Bergvik Skog AB.

Chairman of the Board of Altor private equity funds (Altor 2003 GP Limited and Altor Fund II GP Limited).

Member of the Executive Board & CFO of Royal Ahold 2003–2005. CFO of Industri Kapital Group, London 1999–2003 and CFO of Ikea Group, Denmark 1985–1998.

Owens 16 175 R shares, and has 20 000 (2005) and 30 000 (2006) options/synthetic options in Stora Enso.

### **Elisabet Salander Björklund**

*Senior Executive Vice President, Stora Enso Forest Products*

Born 1958. M.Sc. (For.).  
Swedish citizen.

Joined STORA in 1995. Managing Director of Stora Timber AB 1995–1999, Director, Business Unit Nordic Redwood, Stora Enso Timber 1999–2000, Director, Raw Material and Fibre Products, Stora Enso Timber 2000–2003 and Executive Vice President, Stora Enso Wood Supply Europe between May 2003 and April 2005. Member of Stora Enso's R&D Committee. Chairman of Stora Enso's Sustainability Committee. Member of the Board of Directors of several subsidiaries.

Vice Chairman of the Board of Directors of the Swedish Road Administration. Member of the Board of Directors of Clas Ohlson AB and Bergvik Skog AB. Member of The Royal Swedish Academy of Agriculture and Forestry and The Royal Swedish Academy of Engineering Sciences.

Owens 1 968 R shares, and has 85 000 (1999–2005) and 22 500 (2006) options/synthetic options in Stora Enso.

### **Christer Ågren**

*Senior Executive Vice President, Corporate Services*

Born 1954. B.A. (Business Adm.).  
Swedish citizen.

Joined STORA in 1993. Executive Vice President, Corporate HR & TQM, Stora Enso between December 1998 and April 2005. Stora Enso Country Manager Sweden from 1 April 2006. Member of Stora Enso's Sustainability Committee.

Chairman of the Board of the Swedish Forest Industries Federation, PRI Pensiontjänst AB and Löneanalyser AB. Member of the Board of Svenskt Näringsliv.

Vice President, Personnel, ITT Flygt AB, 1992. Director, Corporate Management Personnel & Organization, Ericsson, 1991. Vice President, Personnel, SAS 1984–1991.

Owens 5 328 R shares, and has 97 500 (1999–2005) and 22 500 (2006) options/synthetic options in Stora Enso.

**Arno Pelkonen**, Senior Executive Vice President, Strategy and Emerging Markets, resigned on 12 January 2006.

**Yngve Ståde**, Senior Executive Vice President, Corporate Support, retired on 31 March 2006.

Options/synthetic options were issued annually between 1999 and 2006.

Enso-Gutzeit became Enso in May 1996. STORA and Enso merged in December 1998.

### **Jouko Karvinen**

Born 1957. M.Sc. (Eng.).  
Finnish citizen.

Own no shares in Stora Enso.

Summary of Recent Employment:

Chief Executive Officer, Philips Medical Systems Division, Executive Vice President and a member of the Board of Management, Royal Philips Electronics, the Netherlands between April and November 2006.

Chief Executive Officer, Philips Medical Systems Division, Senior Vice President and a member of the Group Management Committee, Royal Philips Electronics, USA between June 2002 and March 2006.

Executive Vice President, ABB Group Ltd., Head of Automation Technology Products Division and a member of the Group Executive Committee, Switzerland between November 2000 and May 2002.

Senior Vice President, Business Area Automation Power Products, ABB Group Ltd., Switzerland between September 1998 and October 2000.

Vice President, Business Unit Drives Products & Systems, ABB Group Ltd., Switzerland between 1993 and September 1998.

Vice President, Power Electronics Division, ABB Drives OY Global AC Drives Feeder Factory and R&D Centre, Finland between 1990 and 1993.

Various management positions within ABB between 1987 and 1990.

# Management Group

## John Gillen

*President and Regional Manager,  
North America*

Born 1958. B.A. (English). American citizen. Joined the company in 1995.

## Nils Grafström

*Executive Vice President,  
Stora Enso Latin America*

Born 1947. LL.M. Swedish citizen. Employed by the company 1980–1997, rejoined in 2001.

## Walter Haberland

*Senior Vice President,  
Information Technology*

Born 1946. M.Sc. (Phys.). German citizen. Joined the company in 1995.

## Peter Kickinger

*Executive Vice President,  
Stora Enso Timber*

Born 1964. M.Sc. (Econ.). Austrian citizen. Joined the company in 1993. Member of Stora Enso's Investment Committee.

## Jyrki Kurkinen

*General Counsel,  
Senior Vice President, Legal Services*

Born 1948. LL.M. Finnish citizen. Joined the company in 1979. Chairman of Stora Enso's Disclosure Committee.

## Mats Nordlander

*Executive Vice President,  
Stora Enso Merchants (Papyrus)*

Born 1961. Dip. Eng. Swedish citizen. Joined the company in 1994.

## Gary Parafinczuk

*Executive Vice President,  
Corporate Human Resources and  
Business Excellence*



Front row, left to right: Gary Parafinczuk, Mats Nordlander, Nils Grafström, Keith B Russell and Kari Vainio. Back row, left to right: Niilo Pöyhönen, Walter Haberland, John Gillen, Peter Kickinger, Jyrki Kurkinen, Markku Pentikäinen and Eberhard Potempa.

Member of Stora Enso's Management Group as of 1 March 2006. Born 1952. B.A. (Political Science). American citizen. Joined the company in 2000.

## Markku Pentikäinen

*Executive Vice President,  
Corporate Technology and Asia Pacific*  
Born 1953. M.Sc. (Eng.). eMBA. Finnish citizen. Joined the company in 1979.

## Eberhard Potempa

*Senior Vice President,  
Country Manager Germany*  
Born 1953. B.Sc. (Econ.). German citizen. Joined the company in 1976.

## Niilo Pöyhönen

*Executive Vice President,  
Stora Enso Consumer Boards*  
Born 1953. M.Sc. (Econ.). Finnish citizen. Joined the company in 1978. Member of Stora Enso's R&D Committee.

## Keith B Russell

*Senior Vice President,  
Investor Relations*  
Born 1958. B.A. British citizen. Joined the company in 2002. Member of Stora Enso's Sustainability Committee.

## Kari Vainio

*Executive Vice President,  
Corporate Communications*  
Born 1946. B.Sc. (Econ.). Finnish citizen. Employed by the company 1980–1983, rejoined in 1985. Member of Stora Enso's Sustainability Committee.

**Magnus Diesen**, Executive Vice President, Corporate Strategy, retired on 30 September 2006.

**Per Ericson**, Executive Vice President, Corporate Human Resources and Business Excellence, resigned on 28 February 2006.

Enso-Gutzeit became Enso in May 1996. STORA and Enso merged in December 1998.

Stora Enso in

# Capital Markets

## Shares and shareholders

Shares of Stora Enso Oyj are divided into A and R shares. All shares entitle holders to an equal dividend but different voting rights. Each A share and each ten R shares carry one vote at the AGM. However, each shareholder has at least one vote. The nominal value of each share is EUR 1.70. The Company's fully paid-up share capital entered in the Finnish Trade Register was EUR 1 342.2 million on 31 December 2006. The total number of shares was 789 538 499 and the number of votes 239 246 655.

### No share repurchases during 2006

The Annual General Meeting (AGM) on 21 March 2006 authorised the Board of Directors to repurchase and dispose of not more than 17 700 000 A shares and not more than 60 100 000 R shares. The number of shares repurchased could not exceed 10% of the votes or the share capital. The authorisation is valid up to and including 29 March 2007.

There were no share repurchases during the year 2006.

The Board of Directors currently has no authorisations to issue shares, convertible bonds or bonds with warrants.

### Listed on three stock exchanges

Stora Enso shares are listed on the Helsinki and Stockholm Stock Exchanges. R shares are also listed in ADR form on the New York Stock Exchange (NYSE). The shares are quoted in Helsinki in euros (EUR), in Stockholm in Swedish krona (SEK) and in New York in US dollars (USD).

Deutsche Bank Trust Company Americas acts as depositary bank for the Stora Enso ADR programme. The exchange rate between Stora Enso ADRs and R shares is 1:1, i.e. one ADR repre-

sents one Stora Enso R share and the ADR ticker is SEO.

### Share price performance and volumes Helsinki

The Stora Enso R (STERV) share price rose during 2006 by 5% (2% in 2005). During the same period, the OMX Helsinki Index rose by 18%, the OMX Helsinki Benchmark Index rose by 25% and the OMX Helsinki Materials Index rose by 25%. The annual high was EUR 13.58 and the annual low EUR 10.01.

### Stockholm

The Stora Enso R (STE R) share price rose during 2006 by 0.5% (6% in 2005). During the same period, the OMX Stockholm 30 Index rose by 20% and the OMX Stockholm Materials Index by 42%. The annual high was SEK 127.50 and the annual low SEK 92.50.

### New York

The Stora Enso ADR (SEO) share price rose during 2006 on the NYSE by 17% (a decrease of 11% in 2005). During the same period, the Standard & Poor's Paper index rose by 3%. The annual

high was USD 16.40 and the annual low USD 12.60.

### Volumes

The volume-weighted average price of the R share over the year was EUR 11.89 in Helsinki (EUR 10.98 in 2005), SEK 110.70 in Stockholm (SEK 102.27 in 2005), and USD 14.79 in New York (USD 13.69 in 2005).

The cumulative trading volume of the R share in Helsinki was 1 165 656 577 shares (81% of total), in Stockholm 245 893 695 shares (17% of total) and in New York 24 416 600 shares (2% of total). Total market capitalisation on the Helsinki Stock Exchange at year-end was EUR 9.5 billion.

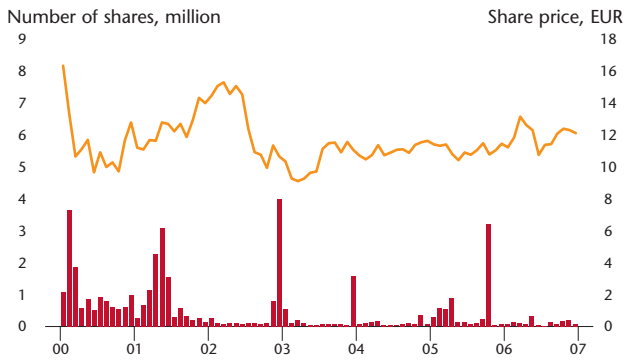
### Some 68 500 registered shareholders

At the end of 2006 the Company had approximately 68 500 registered shareholders, of which about 42 000 are Swedish shareholders and about 2 500 ADR holders. Each nominee register is entered in the share register as one shareholder. Approximately 580 million (73%) of the Company's shares were registered in the name of a nominee.



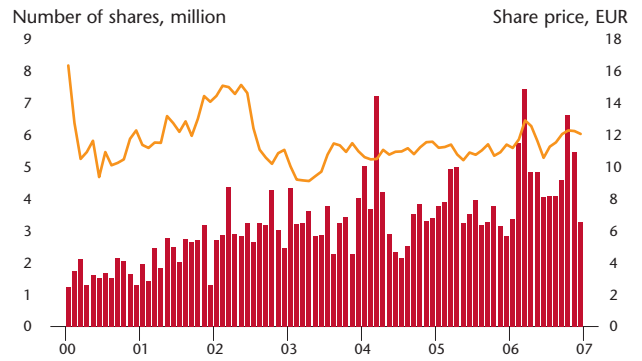
Monthly share price performance and volumes on Helsinki Stock Exchange (2000–2006)

Stora Enso A



● Volume  
— Monthly average share price

Stora Enso R



● Volume  
— Monthly average share price

The free float of shares excluding shareholders with holdings of more than 5% of shares or votes is approximately 595 million shares, which is 75% of the total number of shares issued. The largest single shareholder in the Company is the Finnish State. However, since June 1998 the Finnish State has not been required to own Stora Enso shares.

Incentive programmes

Share based programmes

In 2005 Stora Enso extended the two share-based programmes introduced in 2004 to cover all participants in long-

term incentive plans. The programmes were continued in 2006. The programmes are synthetic share awards under which designated employees may receive shares already issued (not new shares).

Option/synthetic option programmes

Stora Enso has seven option/synthetic option outstanding programmes for key personnel. Options/synthetic options were issued in each year from 1999 to 2006. Depending on local circumstances, holders may receive either cash compensation or an option to purchase shares already issued (not new shares).

Stora Enso North America option programme

Following the acquisition of Consolidated Papers, Inc. the Board of Directors decided to convert the Consolidated Papers' share option plans into Stora Enso share option plans. The options entitle the holder to either cash compensation or an option to subscribe for shares already issued (not new shares).

Major shareholders in Stora Enso on 31 December 2006

By voting power		% of shares	% of votes
1	Finnish State	11.9	24.7
2	Knut and Alice Wallenberg Foundation	7.2	24.2
3	Social Insurance Institution of Finland	3.4	10.0
4	Varma Mutual Pension Insurance Company	1.5	4.96
5	Marianne and Marcus Wallenberg Foundation	0.6	2.0
6	Ilmarinen Mutual Pension Insurance Company	1.0	1.6
7	MP-Bolagen i Vetlanda AB (Werner von Seydlitz)	0.4	1.4
8	Sampo Life Insurance Company Limited	0.6	1.3
9	Erik Johan Ljungberg's Education Fund	0.8	1.0
10	Bergslaget's Healthcare Foundation	0.3	0.3
<b>Total</b>		<b>28.2</b>	<b>72.2</b>
Nominee registered shares		73.4	52.5

The list has been compiled by the Company on the basis of shareholder information obtained from the Finnish Central Securities Depository (APK), the Swedish Securities Register Centre (VPC), and a database managed by Deutsche Bank Trust Company Americas.

At the end of 2006 Stora Enso had 178 103 117 A shares and 611 435 382 R shares in issue, of which the Company held no A shares and 952 627 R shares with a nominal value of EUR 41.6 million. The holding represents 0.12% of the Company's share capital and 0.04% of voting rights.

Ownership distribution, 31 December 2006 (by number of shares held)



- Finnish institutions ..... 12.3%
- Finnish State ..... 12.3%
- Finnish private shareholders ..... 1.8%
- Swedish institutions ..... 15.4%
- Swedish private shareholders ..... 3.5%
- ADR holders ..... 13.7%
- Under nominee names (non-Finnish/non-Swedish shareholders) ..... 40.9%

Changes in share capital 2004–2006	No. of A shares issued	No. of R shares issued	Total no. of shares	Share capital (EUR million)
<b>Stora Enso Oyj, 1 Jan 2004</b>	<b>181 211 080</b>	<b>683 051 419</b>	<b>864 262 499</b>	<b>1 469.3</b>
Warrants exercised and registered	–	789 000	789 000	–
Cancellation of repurchased shares	–8 100	–27 800 000	–27 808 100	–47.3
Conversion of A shares into R shares	–2 154 457	2 154 457	–	–
<b>Stora Enso Oyj, 31 Dec 2004</b>	<b>179 048 523</b>	<b>658 194 876</b>	<b>837 243 399</b>	<b>1 423.3</b>
Cancellation of repurchased shares	–16 300	–24 250 000	–24 266 300	–41.3
Conversion of A shares into R shares	–872 445	872 445	–	–
<b>Stora Enso Oyj, 31 Dec 2005</b>	<b>178 159 778</b>	<b>634 817 321</b>	<b>812 977 099</b>	<b>1 382.1</b>
Cancellation of repurchased shares	–38 600	–23 400 000	–23 438 600	–39.9
Conversion of A shares into R shares	–18 061	18 061	–	–
<b>Stora Enso Oyj, 31 Dec 2006</b>	<b>178 103 117</b>	<b>611 435 382</b>	<b>789 538 499</b>	<b>1 342.2</b>

### Option programmes

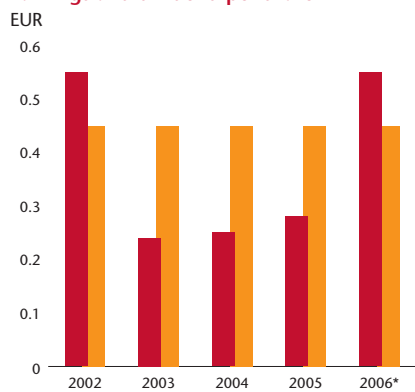
Option programme	Type	Year of issue	Number of staff	Strike price	Number of options issued	Number of options outstanding	Exercise period
2006	Synthetic	2006	750	EUR 12.46	2 161 000	2 155 125	1 Mar 2009–28 Feb 2013
2005	Synthetic	2005	1 000	EUR 12.20	3 075 125	2 978 750	1 Mar 2008–28 Feb 2012
2004	Synthetic	2004	1 000	EUR 11.15	4 682 800	4 518 800	1 Mar 2007–28 Feb 2011
2003	Synthetic	2003	1 000	EUR 10.00	6 069 150	4 549 900	8 Feb 2006–7 Feb 2010
2002	Synthetic	2002	1 000	EUR 16.50	5 902 000	5 494 500	8 Feb 2005–7 Feb 2009
2001	Synthetic	2001	500	EUR 11.70	4 215 000	3 429 500	1 Apr 2004–31 Mar 2008
2000	Synthetic	2000	200	EUR 12.25	2 797 500	2 253 500	1 Apr 2003–31 Mar 2007
1999	Synthetic	1999	200	EUR 11.75	2 790 650	–	15 Jul 2002–15 Jul 2006
North America	Stock options	2000	839	USD 6.97 (EUR 5.91)	5 680 000	557 884	11 Sep 2000–4 Feb 2010

### Key share ratios 1997–2006 (for calculations see Financials 2006 report, page 113)

According to Helsinki Stock Exchange	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Earnings/share, EUR*	0.53	0.24	0.98	1.77	1.02	–0.27	0.16	0.91	–0.14	0.74
diluted, EUR*	0.53	0.24	0.98	1.76	1.02	–0.27	0.17	0.91	–0.14	0.74
excl. non-recurring items, EUR*	0.58	0.59	0.89	1.32	0.93	0.55	0.24	0.25	0.28	0.55
Cash earnings/share, EUR*	1.63	1.79	2.18	3.16	2.42	2.50	1.57	2.04	1.65	2.34
diluted, EUR*	1.63	1.79	2.18	3.13	2.42	2.50	1.57	2.04	1.65	2.34
excl. non-recurring items, EUR*	1.65	1.80	2.09	2.61	2.33	1.97	1.63	1.67	1.70	1.94
Equity/share, EUR*	7.28	6.94	7.84	9.41	9.90	9.22	9.49	9.29	9.16	9.89
Dividend/share, EUR*	0.33	0.35	0.40	0.45	0.45	0.45	0.45	0.45	0.45	0.45**
Payout ratio, excl. non-recurring items, %*	57	59	45	34	48	82	180	180	161	82
Dividend yield, %*										
A share	4.6	4.6	2.3	3.5	3.2	4.5	4.1	3.9	3.9	3.7
R share	4.6	4.6	2.3	3.6	3.1	4.5	4.2	4.0	3.9	3.8
Price/earnings ratio (P/E)*										
A share	12.3	12.8	19.8	9.7	15.1	17.7	44.0	46.2	40.9	22.4
R share	12.2	13.0	19.4	9.5	15.3	17.6	42.7	45.1	40.9	21.8
Average share prices for the period, EUR***										
A share	7.75	9.14	11.21	12.01	12.24	11.24	10.63	11.11	11.05	12.10
R share	7.97	8.35	11.84	11.27	12.57	12.86	10.23	10.89	10.98	11.89
Total market capitalisation at year-end, EUR million***	2 214	5 801	13 209	11 733	13 006	9 052	9 288	9 486	9 304	9 528
Average number of shares (thousands)										
basic*	759 574	759 574	759 580	812 040	901 506	889 606	851 128	829 935	798 687	788 578
diluted*	759 691	759 822	760 628	813 488	902 296	889 956	851 326	830 456	799 218	788 863

\* Proforma STORA and Enso figures for years 1997–1998 \*\* Board of Directors' proposal to the AGM \*\*\* Figures based on market information are calculated from Enso Oyj's figures before 29 December 1998.

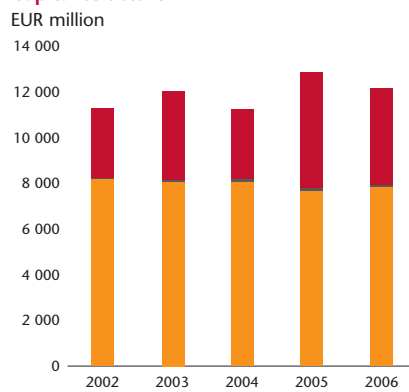
**Earnings and dividend per share**



- Earnings per share, excl. non-recurring items
- Dividend per share

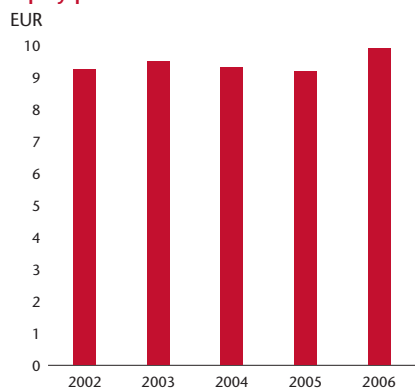
\* Board's dividend proposal

**Capital structure**

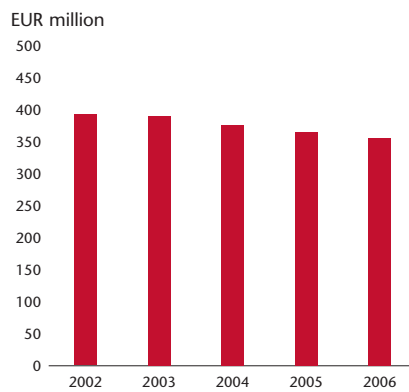


- Interest-bearing net liabilities
- Equity
- Minority interests

**Equity per share**



**Distributed dividend**



**Trading codes, lots and currencies**

	Helsinki	Stockholm	New York
A share	STEAV	STE A	–
R share	STERV	STE R	–
ADRs	–	–	SEO
Segment	Large Cap	Large Cap	–
Industry	Materials	Materials	Basic Materials
Lot	–	200	–
Currency	EUR	SEK	USD
ISIN, A share	FI0009005953	FI0009007603	–
ISIN, R share	FI0009005961	FI0009007611	–

**German stock market quotations (Freiverkehr)**

	Symbol	CUSIP number	Place of listing
A share	ENUA	870 734	Berlin, Munich
R share	ENUR	871 004	Berlin, Frankfurt, Stuttgart, Munich
Reuters	STERV.HE		
Bloomberg	STERV FH EQUITY		



Read more about Shares and Shareholders on pages 2–10 of the Financials 2006 report or the Company's website [www.storaenso.com/investors](http://www.storaenso.com/investors)



# Debt Investors

## Funding strategy

Stora Enso's funding strategy is based on the Group's financial targets. Stora Enso should have access to sufficient competitively priced funding at any time to be able to pursue its strategy and achieve its financial targets.

In order to achieve this, the emphasis is on capital markets funding. Stora Enso strives to build confidence and a track record with fixed-income investors by being informative and transparent.

The debt structure of Stora Enso is focused on capital markets, whereas banks are utilised primarily to provide back-up facilities. To manage currency translation exposures, funding is obtained in the currencies of the Group's investments and assets (primarily USD, EUR and SEK). Commercial paper markets are used for short-term funding and liquidity management.

## Rating strategy

Stora Enso considers the maintenance of two investment grade ratings an important target. The present rating and outlook from Moody's, Standard & Poor's (S&P) and Fitch are shown below.

Stora Enso's goal is to ensure that rating agencies continue to be well informed with Stora Enso's strategy and performance. The company's strategy is to maintain liquidity well in line with the comfort level of the agencies. Review meetings are arranged with Stora Enso management annually, and regular contact is kept with rating analysts. ●



Read more about debt and loans in the Financials 2006 report or on the Company's website

[www.storaenso.com/debt](http://www.storaenso.com/debt)

Rating agency	Long/short-term rating	Valid from
Standard & Poor's	BBB (stable) / A2	23 Feb 2006
Moody's	Baa3 (stable) / P3	16 Nov 2006
Fitch	BBB- (stable) / F3	27 Sep 2006 (unsolicited)

## Debt structure as at 31 December 2006

	EUR	USD	SEK
	Eurobond	Global bond	Medium-Term Note
Public issues	EUR 375 million 2007	USD 469 million 2011	SEK 2.0 billion 2008
	EUR 500 million 2010	USD 508 million 2016	SEK 4.6 billion 2009
	EUR 518 million 2014	USD 300 million 2036	
	EUR 50 million 2018		
Private placements	EUR 142 million	USD 476 million	SEK 740 million
Back-up facility	EUR 1.75 billion syndicated multi-currency revolving credit facility 2010		

## Stora Enso's activities in capital markets during 2006

Stora Enso's Investor Relations activities cover equity and fixed-income markets to ensure full and fair valuation of the Company's shares, continual access to funding sources and stable bond pricing. Investors and analysts in Europe, North America and parts of Asia are met on a regular basis.

In 2006 the Investor Relations team conducted more than 300 individual and group meetings with professional equity investors, whilst maintaining regular contact with equity research analysts at investment banks and brokerage firms. There were also around 125 meetings with fixed-income analysts and investors. In addition, site visits were arranged for members of the investment community. During the year, IR and

senior management also gave presentations at various equity and fixed-income investor conferences in Scandinavia, the UK and North America.

One of the main IR events of the year is the Annual Investor Day, this year hosted at Kvarnsveden Mill in Sweden. Thirty-five representatives of equity and fixed-income markets, including analysts, fund managers and institutional shareholders, attended the event in November. The newly inaugurated paper machine 12 was showcased and investors gained an insight into Stora Enso's Publication Paper business, as members of the Publication Papers Management Team gave presentations on trends and the strategy within the division. The Group's energy profile was also discussed in detail.

## Consolidated Income Statement

EUR million	Year Ended 31 December		
	2004	2005	2006
<b>Sales</b>	<b>12 395.8</b>	<b>13 187.5</b>	<b>14 593.9</b>
Other operating income	180.7	80.1	364.9
Changes in inventories of finished goods and work in progress	39.0	71.7	2.5
Change in net value of biological assets	7.1	-6.7	-2.2
Materials and services	-6 607.6	-7 297.3	-8 111.8
Freight and sales commissions	-1 367.8	-1 493.0	-1 751.4
Personnel expenses	-1 907.9	-2 182.5	-2 225.5
Other operating expenses	-831.8	-991.9	-988.9
Depreciation, amortisation and impairment charges	-1 172.0	-1 427.7	-1 257.7
<b>Operating Profit / (Loss)</b>	<b>735.5</b>	<b>-59.8</b>	<b>623.8</b>
Share of results in associated companies	38.9	67.2	87.4
Financial income	149.9	213.0	253.6
Financial expense	-255.9	-364.6	-333.0
<b>Profit / (Loss) before Tax</b>	<b>668.4</b>	<b>-144.2</b>	<b>631.8</b>
Income tax	97.6	36.8	-42.6
<b>Net Profit / (Loss) for the Year</b>	<b>766.0</b>	<b>-107.4</b>	<b>589.2</b>
<b>Attributable to:</b>			
Equity holders of the Parent Company	757.9	-111.1	585.0
Minority Interests	8.1	3.7	4.2
<b>Net Profit / (Loss) for the Year</b>	<b>766.0</b>	<b>-107.4</b>	<b>589.2</b>
<b>Earnings per Share</b>			
Basic earnings / (loss) per share, EUR	0.91	-0.14	0.74
Diluted earnings / (loss) per share, EUR	0.91	-0.14	0.74

## Consolidated Statement of Recognised Income & Expense

EUR million	Year Ended 31 December		
	2004	2005	2006
Defined benefit plan actuarial gains / (losses)	-174.9	-60.2	135.1
Tax on actuarial movements	45.8	27.0	-46.6
Net fair value movements in Available-for-Sale assets	2.5	352.5	251.6
Currency hedges	10.5	-25.7	20.3
Commodity hedges	-47.6	105.6	-65.6
Associate hedges	-19.0	1.7	11.1
Tax on Other Comprehensive Income Movements (OCI)	6.6	-33.7	50.2
Currency translation movements on equity net investments (CTA)	-67.4	240.6	-86.4
Equity net investment hedges	78.3	-201.4	118.0
Tax on equity hedges	-21.0	52.4	-30.7
<b>Net income &amp; Expense Recognised directly in Equity</b>	<b>-186.2</b>	<b>458.8</b>	<b>357.0</b>
Net Profit / (Loss) for the Year	766.0	-107.4	589.2
<b>Total Recognised Income &amp; Expense for the Year</b>	<b>579.8</b>	<b>351.4</b>	<b>946.2</b>
<b>Attributable to:</b>			
Equity holders of the Parent Company	571.7	347.7	942.0
Minority Interests	8.1	3.7	4.2
<b>Total Recognised Income &amp; Expense for the Year</b>	<b>579.8</b>	<b>351.4</b>	<b>946.2</b>



This is a financial summary, for the full financial information, see the separate Financial 2006 report or

[www.storaenso.com/investors](http://www.storaenso.com/investors)

# Consolidated Balance Sheet

EUR million	As at 31 December			
	2004	2005	2006	
<b>Assets</b>				
<b>Fixed Assets and Non-current Investments</b>				
Goodwill	O	787.9	961.8	906.8
Other intangible fixed assets	O	108.1	194.1	170.4
Property, plant and equipment	O	9 754.8	9 936.8	9 153.6
		<b>10 650.8</b>	<b>11 092.7</b>	<b>10 230.8</b>
Biological assets	O	64.6	76.8	111.5
Emission rights	O	-	43.7	98.1
Investment in associated companies	A	568.1	719.9	805.2
Available-for-Sale: Listed securities	I	220.1	211.6	41.2
Available-for-Sale: Unlisted shares	O	132.8	403.6	794.3
Non-current loan receivables	I	233.1	127.6	149.2
Deferred tax assets	T	11.4	72.2	53.5
Other non-current assets	O	40.2	28.3	61.1
		<b>11 921.1</b>	<b>12 776.4</b>	<b>12 344.9</b>
<b>Current Assets</b>				
Inventories	O	1 771.3	2 150.5	2 019.5
Tax receivables	T	160.9	108.5	124.8
Short-term operative receivables	O	1 865.3	2 157.9	2 127.9
Interest-bearing receivables	I	248.7	309.2	214.2
Cash and cash equivalents	I	274.3	351.4	609.0
		<b>4 320.5</b>	<b>5 077.5</b>	<b>5 095.4</b>
<b>Total Assets</b>		<b>16 241.6</b>	<b>17 853.9</b>	<b>17 440.3</b>
<b>Equity and Liabilities</b>				
<b>Equity Attributable to Parent Company Shareholders</b>				
Share capital		1 423.3	1 382.1	1 342.2
Share premium		770.3	545.9	528.0
Reserve fund		238.9	238.9	238.9
Treasury shares		-180.8	-259.9	-10.5
Other comprehensive income		67.6	468.0	735.6
Cumulative translation adjustment		-218.9	-127.1	-132.0
Retained earnings		4 767.1	5 083.3	4 512.4
Net profit for the period		757.9	-111.1	585.0
		<b>7 625.4</b>	<b>7 220.1</b>	<b>7 799.6</b>
Minority Interests		136.1	93.6	103.5
<b>Total Equity</b>		<b>7 761.5</b>	<b>7 313.7</b>	<b>7 903.1</b>
<b>Non-current Liabilities</b>				
Post-employment benefit provisions	O	1 076.8	888.3	763.1
Other provisions	O	60.9	142.6	308.3
Deferred tax liabilities	T	1 116.2	866.0	793.0
Non-current debt	I	3 328.1	4 353.9	4 081.0
Other non-current operative liabilities	O	174.0	204.7	193.7
		<b>5 756.0</b>	<b>6 455.5</b>	<b>6 139.1</b>
<b>Current Liabilities</b>				
Current portion of non-current debt	I	102.1	385.0	630.2
Interest-bearing liabilities	I	470.8	1 143.1	236.9
Bank overdrafts	I	126.6	201.9	299.4
Current operative liabilities	O	1 673.1	1 975.4	1 972.9
Tax liabilities	T	351.5	379.3	258.7
		<b>2 724.1</b>	<b>4 084.7</b>	<b>3 398.1</b>
<b>Total Equity and Liabilities</b>		<b>16 241.6</b>	<b>17 853.9</b>	<b>17 440.3</b>

Items designated "O" comprise Operative Capital

Items designated "I" comprise Interest-bearing Net Liabilities

Items designated "T" comprise Net Tax Liabilities

Items designated "A" comprise Associated Companies



# Consolidated Cash Flow Statement

EUR million	Year Ended 31 December		
	2004	2005	2006
<b>Cash Flow from Operating Activities</b>			
Net profit / (loss) for the period	766.0	-107.4	589.2
Cash Flow from the Statement of Recognised Income & Expense			
Currency derivatives	10.7	-26.1	21.7
Commodity hedges	-48.5	107.2	-70.2
Net investment equity hedges	89.4	-56.0	-10.7
Reversal of non-cash items:			
Taxes	-97.6	-36.8	42.6
Depreciation, amortisation and impairment charges	1 172.0	1 427.7	1 257.7
Change in value of biological assets	-7.1	6.7	2.2
Change in fair value of options	-	9.7	17.0
Share of results of associated companies	-38.9	-67.2	-87.3
Profits and losses on sale of fixed assets and investments	-125.8	5.0	-207.0
Net financial income	106.0	151.6	79.4
Associates company dividends received	7.5	11.6	5.6
Interest received	15.6	29.0	23.4
Interest paid, net of amounts capitalised	-182.3	-166.2	-244.3
Dividends received	17.1	4.5	1.3
Other financial items, net	17.3	3.6	-37.6
Income taxes paid	-114.2	-209.0	-215.4
Change in net working capital, net of businesses acquired or sold	-92.4	-400.6	289.0
<b>Net Cash Provided by Operating Activities</b>	<b>1 494.8</b>	<b>687.3</b>	<b>1 456.6</b>
<b>Cash Flow from Investing Activities</b>			
Acquisition of subsidiary shares	-176.4	-323.9	-329.8
Acquisition of shares in associated companies	-250.4	-55.7	-19.4
Acquisition of available-for-sale investments	-13.2	-8.6	-5.2
Capital expenditure	-975.1	-1 129.6	-559.1
Investment in biological assets	-4.5	-15.7	-24.3
Proceeds from disposal of subsidiary shares	197.9	1.6	466.5
Proceeds from disposal of shares in associated companies	-	-	0.3
Proceeds from disposal of available-for-sale investments	32.8	97.4	209.1
Proceeds from sale of fixed assets	36.4	14.5	30.0
Proceeds from (payment of) non-current receivables, net	-182.5	98.3	-21.3
<b>Net Cash Used in Investing Activities</b>	<b>-1 335.0</b>	<b>-1 321.7</b>	<b>-253.2</b>
<b>Cash Flow from Financing Activities</b>			
Proceeds from (payment of) non-current liabilities, net	1 261.2	671.3	-11.6
Proceeds from (payment of) current borrowings, net	-814.0	652.6	-632.7
Dividends paid	-375.7	-365.3	-354.9
Minority dividends less equity injections	-1.9	-0.2	6.6
Options exercised	1.6	-	-2.0
Repurchase of own shares	-198.6	-344.7	0.3
<b>Net Cash Used in Financing Activities</b>	<b>-127.4</b>	<b>613.7</b>	<b>-994.3</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>32.4</b>	<b>-20.7</b>	<b>209.1</b>
Cash and bank in acquired companies	45.9	10.2	1.6
Cash and bank in divested companies	-29.5	-	-20.2
Translation adjustment	-3.2	12.3	-30.4
Cash and cash equivalents at beginning of year	102.1	147.7	149.5
<b>Net Cash and Cash Equivalents at Year End</b>	<b>147.7</b>	<b>149.5</b>	<b>309.6</b>
<b>Cash and Cash Equivalents at Year End</b>	<b>274.3</b>	<b>351.4</b>	<b>609.0</b>
<b>Bank Overdrafts at Year End</b>	<b>-126.6</b>	<b>-201.9</b>	<b>-299.4</b>
	<b>147.7</b>	<b>149.5</b>	<b>309.6</b>

# Consolidated Cash Flow Statement

## Supplemental Cash Flow Information

EUR million	Year Ended 31 December		
	2004	2005	2006
<b>Change in Net Working Capital consists of:</b>			
Change in inventories	-106.8	-254.7	94.3
Change in interest-free receivables:			
Current	-175.7	-51.4	-0.2
Non-current	-50.5	-3.4	-36.6
Change in interest-free liabilities:			
Current	-289.1	-7.1	35.7
Non-current	47.6	-12.9	105.9
Proceeds from (payment of) short-term interest-bearing receivables	482.1	-71.1	89.9
	<b>-92.4</b>	<b>-400.6</b>	<b>289.0</b>
<b>Acquisition of Group Companies</b>			
<b>Cash Flow on Acquisitions</b>			
Purchase consideration on acquisitions	176.4	323.9	329.8
Cash and cash equivalents in acquired companies	-45.9	-10.3	-1.6
	<b>130.5</b>	<b>313.6</b>	<b>328.2</b>
<b>Non-cash Transaction</b>			
Associate shares held	3.9	5.0	-
<b>Total Acquisition Value</b>	<b>134.4</b>	<b>318.6</b>	<b>328.2</b>
<b>Acquired Net Assets</b>			
Operating working capital	44.0	171.4	47.3
Operating fixed assets	190.2	388.3	283.1
Interest-bearing assets less cash and cash equivalents	0.7	-	-
Tax liabilities	-19.2	-59.8	1.2
Interest-bearing liabilities	-11.4	-274.6	-4.5
Minority interests	-69.9	93.3	1.1
<b>Total Net Assets Acquired</b>	<b>134.4</b>	<b>318.6</b>	<b>328.2</b>
<b>Disposal of Group Companies</b>			
<b>Cash Flow on Disposals</b>			
Cash flow on disposal	197.9	1.6	466.5
Cash and cash equivalents in divested companies	-29.5	-	-20.2
	<b>168.4</b>	<b>1.6</b>	<b>446.3</b>
<b>Net Assets Sold</b>			
Operating working capital	62.2	-	59.5
Operating fixed assets	94.1	-	172.4
Biological assets	1 541.2	-	45.5
Interest-bearing assets less cash and cash equivalents	23.1	1.6	1.2
Tax liabilities	-222.9	-	-18.0
Interest-bearing liabilities	-1 518.8	-	-12.0
Minority interests	-	-	-0.2
Gain on sale	113.0	-	197.9
	<b>91.9</b>	<b>1.6</b>	<b>446.3</b>
Provision for unrealised gain	76.5	-	-
<b>Total Net Assets Sold</b>	<b>168.4</b>	<b>1.6</b>	<b>446.3</b>

## Key Figures 1997–2006

EUR million	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Sales	9 998	10 490	10 636	13 017	13 509	12 783	12 172	12 396	13 188	14 594
% change on previous year	5.1	4.9	1.4	22.4	3.8	-5.4	-4.8	1.8	6.4	10.7
Wages and salaries	1 737	1 805	1 738	2 023	2 246	2 308	2 298	*1 908	2 183	2 226
% of sales	17.4	17.2	16.3	15.4	16.6	18.1	18.9	15.4	16.6	15.3
EBITDA	1 747	1 877	2 328	3 472	2 743	2 288	1 672	1 907	1 368	1 882
Depreciation	806	1 111	849	1 041	1 116	1 397	1 084	1 082	1 420	1 249
Goodwill amortisation and impairments	48	65	62	88	152	1 069	116	90	8	9
Operating profit	893	701	1 416	2 344	1 475	-178	471	735	-60	624
% of sales	8.9	6.7	13.3	18.0	10.9	-1.4	3.9	5.9	-0.5	4.3
Non-recurring items	-52	-471	103	445	-8	-1 078	-54	399	-417	-134
Operating profit excl. non-recurring items	945	1 172	1 314	1 899	1 483	900	526	336	357	758
% of sales	9.5	11.2	12.4	14.6	11.0	7.0	4.3	2.7	2.7	5.2
Share of profits in associated companies	17	10	10	21	80	15	-23	39	67	87
Net financial expense	280	380	267	293	344	206	238	106	152	79
% of sales	2.8	3.6	2.5	2.3	2.5	1.6	2.0	0.9	1.1	0.5
Profit after net financial items	630	331	1 160	2 071	1 211	-369	211	668	-144	632
% of sales	6.3	3.2	10.9	15.9	9.0	-2.9	1.7	5.4	-1.1	4.3
Profit after net financial items excl. non-recurring items	682	802	1 057	1 626	1 219	709	319	269	273	602
% of sales	6.8	7.6	9.9	12.5	9.0	5.5	2.6	2.2	2.1	4.1
Taxes	-204	-146	-397	-642	-296	129	-67	98	37	-43
Net Profit (attributable to Company shareholders)	405	185	758	1 415	918	-241	138	758	-111	585
Dividend	254	268	304	407	404	392	388	376	365	355
Capital expenditure	1 134	896	740	769	857	878	1 248	980	1 145	583
% of sales	11.3	8.5	7.0	5.9	6.3	6.9	10.3	7.9	8.7	4.0
R&D expenditure	79	80	84	95	92	92	89	82	88	79
% of sales	0.8	0.8	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.5
Operating capital	13 057	12 520	12 489	16 402	16 231	13 079	13 527	11 540	12 743	12 205
Capital employed	11 557	11 023	10 851	13 793	13 948	11 105	11 598	10 245	11 678	11 332
Interest-bearing net liabilities	6 090	5 783	5 524	5 396	5 127	3 267	3 919	3 051	5 084	4 234
ROCE, %	8.0	6.2	12.9	19.0	10.6	-1.4	4.0	6.7	-0.5	5.4
ROCE excluding non-recurring items, %	8.5	10.4	12.0	15.4	10.6	7.2	4.5	3.1	3.3	6.6
Return on equity (ROE), %	7.5	3.3	12.8	19.7	10.4	-2.8	1.7	9.7	-1.4	7.7
Equity ratio, %	37.2	36.0	38.4	40.6	43.8	44.3	44.7	47.8	41.0	45.3
Debt/Equity ratio	1.05	1.04	0.9	0.63	0.58	**0.37	0.49	0.40	0.70	0.54
Average number of employees	40 301	40 987	40 226	41 785	44 275	43 853	44 264	43 779	46 166	45 631

\* Including income relating to the change in the Finnish disability pension scheme

\*\* Adjusted with the initial valuation of IAS 41, Agriculture



# Auditor's Report

## To the shareholders of Stora Enso Oyj

We have audited the accounting records, the report of the Board of Directors, the financial statements and the administration of Stora Enso Oyj for the period 1.1. – 31.12.2006. The Board of Directors and the Managing Director have prepared the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, as well as the report of the Board of Directors and the parent company's financial statements, prepared in accordance with prevailing regulations in Finland, containing the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, as well as on the report of the Board of Directors, the parent company's financial statements and the administration.

We conducted our audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the report of the Board of Directors and the financial statements are free of material misstatement. An audit

includes examining on a test basis evidence supporting the amounts and disclosures in the report of the Board of Directors and in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. The purpose of our audit of the administration is to examine whether the members of the Board of Directors and the Managing Director of the parent company have complied with the rules of the Companies' Act.

### Consolidated financial statements

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

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

In our opinion the parent company's financial statements have been prepared

in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The parent company's financial statements give a true and fair view of the parent company's result of operations and of the financial position.

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

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

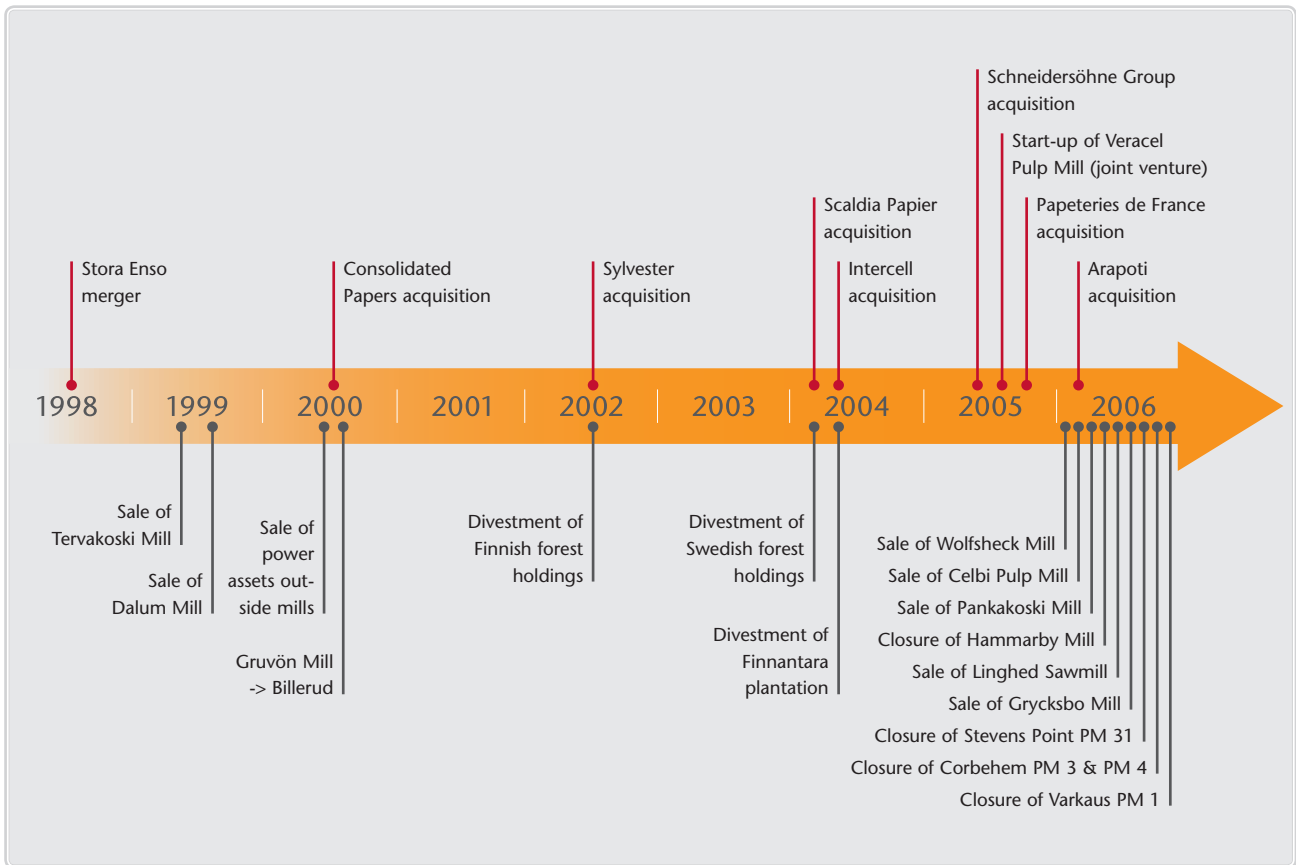
Helsinki, 6 March 2007

PricewaterhouseCoopers Oy  
Authorized Public Accountants

Eero Suomela  
APA

\* This audit report refers to the full consolidated financial statements printed in a separate document, Financials 2006.

# Major structural changes



It should be noted that certain statements herein which are not historical facts, including, without limitation those regarding expectations for market growth and developments; expectations for growth and profitability; and statements preceded by "believes", "expects", "anticipates", "foresees", or similar expressions, are forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995. Since these statements are based on current plans, estimates and projections, they involve risks and uncertainties, which may cause actual results to materially differ from those expressed in such forward-looking statements. Such factors include, but are not limited to: (1) operating factors such as continued success of manufacturing activities and the achievement of efficiencies therein, continued success of product development, acceptance of new products or services by the Group's targeted customers, success of the existing and future collaboration arrangements, changes in business strategy or development plans or targets, changes in the degree of protection created by the Group's patents and other intellectual property rights, the availability of capital on acceptable terms; (2) industry conditions, such as strength of product demand, intensity of competition, prevailing and future global market prices for the Group's products and the pricing pressures thereto, price fluctuations in raw materials, financial condition of the customers and the competitors of the Group, the potential introduction of competing products and technologies by competitors; and (3) general economic conditions, such as rates of economic growth in the Group's principal geographic markets or fluctuations in exchange and interest rates..

# Information for shareholders

## Annual General Meeting (AGM)

Stora Enso Oyj's AGM will be held at 16.00 (Finnish time) on Thursday 29 March 2007 at the Marina Congress Center, Katajanokanlaituri 6, Helsinki, Finland.

Nominee-registered shareholders wishing to attend and vote at the AGM must be temporarily registered in the Company's share register on the record date, 19 March 2007. Instructions for submitting notice of attendance will be given in the invitation to the AGM, which can be consulted on the Company's website at [www.storaenso.com/](http://www.storaenso.com/) investors.

## Payment of dividend

The Board of Directors will propose to the AGM that a dividend of EUR 0.45 per share be paid for the fiscal year ending 31 December 2006.

Dividends payable on VPC-registered shares will be forwarded by VPC and paid in Swedish krona. Dividends payable to ADR holders will be forwarded by Deutsche Bank Trust Company Americas (DBTCA) and paid in US dollars.

## Publication dates for 2007

7 February	Financial results for 2006
14 March	Annual Report 2006
26 April	Interim review for January–March
April	Annual Report on Form 20-F
26 July	Interim review for January–June
25 October	Interim review for January–September

## Distribution of financial information

Stora Enso's **Annual Report**, comprising three separate reports (Company, Sustainability and Financials), is published in English, Finnish, German and Swedish.

The Company and Sustainability Reports are distributed to shareholders in Finland and Sweden who have requested a copy, and to all registered ADR holders. The Financials Report can be ordered at [www.storaenso.com/order](http://www.storaenso.com/order) or from any

corporate office. The Annual Report is also downloadable as a PDF file from the Company's website.

**The Annual Report on Form 20-F** can be downloaded as a PDF file from the Company's website and from the website of the US Securities and Exchange Commission ([www.sec.gov](http://www.sec.gov)).

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

**E-mail alerts** for stock exchange releases, calendar reminders and new financial information notifications can be ordered at [www.storaenso.com/email](http://www.storaenso.com/email). The same address can be used for unsubscribing to e-mail alerts. On unsubscribing, you will be deleted from all the e-mail alert lists to which you subscribed. If your e-mail address has changed, please unsubscribe using your old e-mail address, and then subscribe again using your new e-mail address.

## Mailing lists for financial information

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

Finnish shareholders: by e-mail [corporate.communications@storaenso.com](mailto:corporate.communications@storaenso.com), by mail Stora Enso Oyj, Financial Communications, P.O. Box 309, FI-00101 Helsinki or by tel. +358 2046 131.

Swedish shareholders: by e-mail [storaenso@strd.se](mailto:storaenso@strd.se), by fax +46 8 449 88 10 or by mail Stora Enso, SE-120 88 Stockholm.

Registered ADR holders should contact DBTCA. Beneficial owners of Stora Enso ADRs should contact their broker.

Other stakeholders: see details for Finnish shareholders.

## Information for holders of American Depositary Receipts (ADRs)

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

## Contact information for Stora Enso ADR holders

Deutsche Bank Trust Company Americas  
c/o Mellon Investor Services  
480 Washington Boulevard,  
Jersey City NJ 07310, USA  
Toll-Free (within the USA only):  
+1 800 249 1707

## Filings to SEC through EDGAR

EDGAR (Electronic Data Gathering and Retrieval system) filings are mandatory for non-US companies listed on the New York Stock Exchange. Stora Enso's filed stock exchange releases and interim reviews may be viewed at SEC's website [www.sec.gov](http://www.sec.gov) and at [www.storaenso.com/](http://www.storaenso.com/) investors.



### North America

North America is the world's largest market for paper and board. The region accounts for some 15% of Stora Enso's sales, 18% of its production capacity and 11% of the Group's personnel. It is also the world's largest single market for wood products. Stora Enso is among the largest European exporters of these products to North America. Local production and sales in the USA provide a natural hedge, reducing the Group's exposure to fluctuations in the value of the US dollar.

Stora Enso is the continent's leading producer of coated and super-calendered paper; and also manufactures cores and coreboard, as well as speciality paper for packaging and labelling consumer products.

### South America

The highly competitive cost of pulpwood from fast-growing plantations makes South America a key growth area for Stora Enso. The Veracel Pulp Mill, a joint venture with Aracruz Celulose, produces eucalyptus pulp and has 76 000 hectares of eucalyptus plantations in Brazil. Stora Enso's share of the mill's output is used in producing multicoated fine paper at the Group's mills in China, Finland and Germany. The joint venture is exploring the possibility of building a second fibre line at the Veracel site. In addition, Stora Enso has purchased land for plantations in southern Brazil and Uruguay. Stora Enso became the sole producer of coated mechanical paper in Latin America in September 2006 through the acquisition of the Vinson companies from International Paper in Brazil. The acquired companies have been renamed Stora Enso Arapoti and include a paper mill, a sawmill and approximately 50 000 hectares of land.

### Europe

Europe is Stora Enso's main market for the Group's sales, 80% of its production capacity and 80% of its personnel. Stora Enso is a leading producer of board in Europe. Eastern and Central Europe are key markets for Stora Enso for manufacturing packaging, and for wood products. Increased competition are the main challenges in Europe, Stora Enso has prioritised investments of its European platform through acquisitions of assets in the region.

● Publication Paper   ● Fine Paper   ● Packaging Boards   ● Wood Products   ● Pulp in bales

#### SALES COMPANIES

##### Argentina

Buenos Aires

##### Australia

Brisbane  
Melbourne  
Sydney

##### Austria

Bad St. Leonhard  
Brand  
Vienna  
Ybbs

##### Belgium

Diegem

##### Brazil

São Paulo

##### Canada

Montreal  
Toronto

##### Chile

Santiago de Chile

##### China

Beijing  
Guangzhou  
Hong Kong  
Shanghai

##### Czech Republic

Prague  
Zdirec

##### Denmark

Kolding  
Silkeborg  
Taastrup

##### Estonia

Tallinn

##### Finland

Helsinki  
Kerava  
Vantaa

##### France

Bordeaux  
Nanterre

##### Germany

Düsseldorf  
Pfarrkirchen  
Uetersen

##### Greece

Athens

##### Hungary

Budapest

##### India

New Delhi

##### Indonesia

Jakarta

##### Ireland

Dublin

##### Italy

Milan

##### Japan

Tokyo

##### Latvia

Riga

##### Lithuania

Alytus

##### Malaysia

Kuala Lumpur

##### Mexico

Mexico City

##### Netherlands

Amsterdam

##### Norway

Oslo

##### Poland

Warsaw

##### Portugal

Estoril  
Matosinhos

##### Russia

Moscow  
St. Petersburg

##### Singapore

Singapore

##### Slovakia

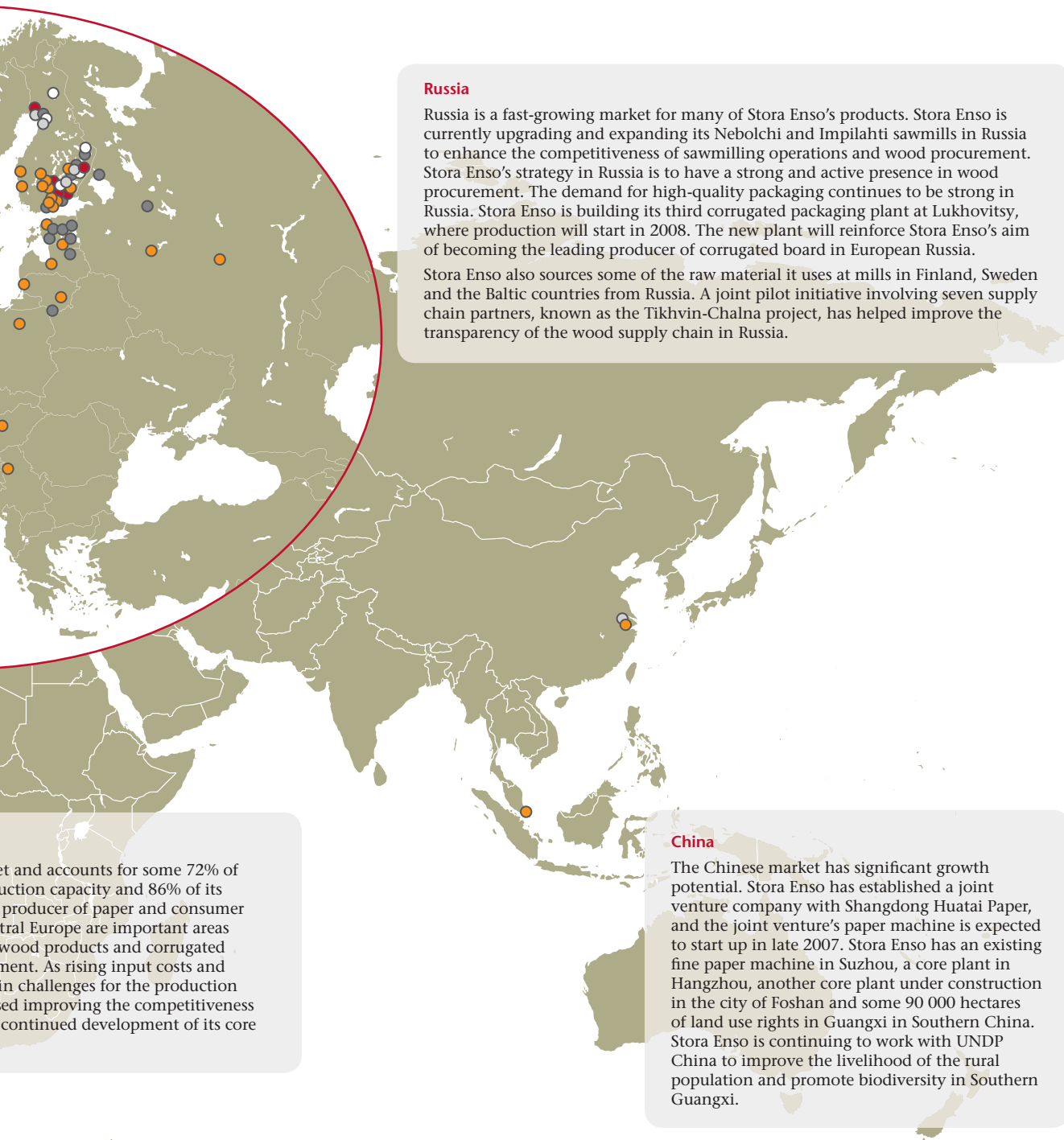
Bratislava

##### Slovenia

Koper

##### South Africa

Cape Town



**Russia**

Russia is a fast-growing market for many of Stora Enso's products. Stora Enso is currently upgrading and expanding its Nebolchi and Impilahti sawmills in Russia to enhance the competitiveness of sawmilling operations and wood procurement. Stora Enso's strategy in Russia is to have a strong and active presence in wood procurement. The demand for high-quality packaging continues to be strong in Russia. Stora Enso is building its third corrugated packaging plant at Lukhovitsy, where production will start in 2008. The new plant will reinforce Stora Enso's aim of becoming the leading producer of corrugated board in European Russia.

Stora Enso also sources some of the raw material it uses at mills in Finland, Sweden and the Baltic countries from Russia. A joint pilot initiative involving seven supply chain partners, known as the Tikhvin-Chalna project, has helped improve the transparency of the wood supply chain in Russia.

et and accounts for some 72% of production capacity and 86% of its producer of paper and consumer central Europe are important areas wood products and corrugated ment. As rising input costs and in challenges for the production ed improving the competitiveness continued development of its core

**China**

The Chinese market has significant growth potential. Stora Enso has established a joint venture company with Shangdong Huatai Paper, and the joint venture's paper machine is expected to start up in late 2007. Stora Enso has an existing fine paper machine in Suzhou, a core plant in Hangzhou, another core plant under construction in the city of Foshan and some 90 000 hectares of land use rights in Guangxi in Southern China. Stora Enso is continuing to work with UNDP China to improve the livelihood of the rural population and promote biodiversity in Southern Guangxi.

[www.storaenso.com/mills](http://www.storaenso.com/mills)

[www.storaenso.com/sales](http://www.storaenso.com/sales)  
[www.papyrus.com](http://www.papyrus.com)

**MERCHANTS**

- Spain**  
Barcelona  
Madrid
- Sweden**  
Falun  
Fors  
Stockholm
- Switzerland**  
Zürich
- Taiwan**  
Taipei Hsien
- United Arab Emirates**  
Dubai
- UK**  
Mendlesham  
Nottingham  
Orpington
- USA**  
Atlanta, GA  
Chicago, IL  
Dallas, TX  
Los Angeles, CA  
New York, NY  
Stamford, CT

- Austria**
- Belgium**
- Croatia**
- Czech Republic**
- Denmark**
- Estonia**
- Finland**
- France**
- Germany**
- Hungary**
- Italy**
- Latvia**
- Lithuania**
- Netherlands**
- Norway**
- Poland**
- Slovakia**
- Sweden**
- Switzerland**

### **Stora Enso Oyj**

P.O. Box 309

FI-00101 Helsinki, Finland

Visiting address: Kanavaranta 1

Tel. +358 2046 131

Fax +358 2046 21471

### **Stora Enso AB**

P.O. Box 70395

SE-107 24 Stockholm, Sweden

Visiting address: World Trade Center,

Klarabergsviadukten 70

Tel. +46 1046 46000

Fax +46 8 10 60 20

### **Stora Enso International Office**

9 South Street

London W1K 2XA, UK

Tel. +44 20 7016 3100

Fax +44 20 7016 3200

[www.storaenso.com](http://www.storaenso.com)

[corporate.communications@storaenso.com](mailto:corporate.communications@storaenso.com)

**SEO**  
**LISTED**  
**NYSE**

Graphic design: Incognito

Photos: Anu Akkanen, Stephen Hyde, Ilpo Musto,

Eglerson Allan Muller Cordeiro and Stora Enso image archive

Printing: Libris Oy

Cover stock: Ensogloss 240 g/m<sup>2</sup>, Stora Enso, Imatra Mills  
(ISO 14001-certified and EMAS-registered FIN-000009)

Text stock: LumiSilk 150 g/m<sup>2</sup>, Stora Enso, Oulu Mill  
(ISO 14001-certified and EMAS-registered FIN-000021)