# Annual Report 2004

SUNILA

## Contents




*Photos in the Annual Report: Timo Vesterinen, Nature photos: Arto Griinari,*
*Board of Directors: Studio Skaala / Jakke Nikkarinen*


Annual Report 2004

# Report of the Board of Directors

## Pulp market

The world bleached market pulp capacity was 45 million tonnes in 2004 (44 million tonnes in 2003). Hardwood pulp capacity is growing rapidly but half of the capacity in 2004 was still softwood pulp. Pulp demand was estimated to be 92 per cent (90 per cent) of the capacity.

Considerable changes in demand from month to month and start-up of new pulp mills during the second half of 2004 have deteriorated the market situation. Pulp PIX price rose from the beginning of the year till the end of June from USD 560 to USD 660. From July to November the price fell to USD 580. In November – December the price rose again to USD 620.

## Operation and Result

Sunila Oy's turnover was EUR 157 million (EUR 140 million). Operating profit was EUR 11.7 million (EUR 1.2 million) and profit/loss before extraordinary items EUR 10.5 million (EUR –2.6 million).

In 2004, a new annual production record of 348,555 tonnes was achieved. The previous record of 330,587 tonnes from 2003 was exceeded by approximately 18,000 tonnes. The average daily production was 999 tonnes (953 tonnes). The operating rate was 95 per cent (90 per cent). In addition to the production stops determined by the collective labour agreement, there was no production on 8 days (10 days).

Pulp sales were 357,531 tonnes (335,380 tonnes) meaning 97 per cent (96 per cent) of the available capacity. The average sales price of pulp was EUR 408 (EUR 378). Sales to the shareholding companies amounted to 321,833 tonnes showing an increase of 36,140 tonnes compared to 2003. Market pulp sales totalled 35,698 tonnes (49,687 tonnes) and export sales 137,240 tonnes (140,734 tonnes). Pulp stock at the end of the year was 15,912 tonnes (24,887 tonnes), which corresponds to 16 days of production.

## Investments

The investments totalled EUR 4.8 million (EUR 11.7 million).

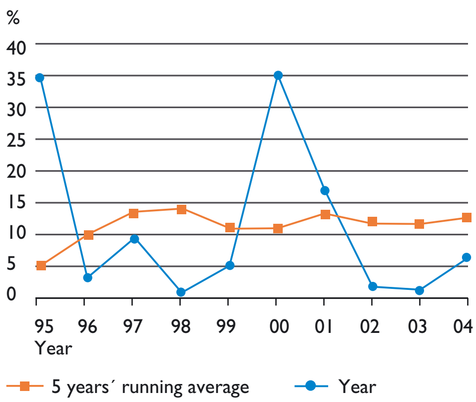
The headbox of drying machine No 4 was renewed to improve the quality of pulp bales. The mill end of the 110 kV electrical network was rebuilt. The Stal turbogenerator was revised.

A pulp delivery and invoicing system upgrade project was started and the new system will be implemented in the summer of 2005. The mill area traffic safety improvement investment will continue in 2005.

## Personnel

The average number of persons employed during the year was 321 (321). At the end of the year the number of persons employed on a permanent basis was 296 (293).

### Return on capital employed (ROCE)



The number of accidents fell to 25 (29). Training to obtain Occupational Safety Cards was given to the whole personnel. Based on a safety analysis, a programme for enhancing the implementation of the Zero Accident approach was put together. According to the programme, the number of safety inspection rounds will be increased and the supervisors will attend occupational safety training.

## Environmental Protection

The latest EMAS environmental report (2002) was updated with the 2003 details in a separate report. The next full report will be published in the spring of 2005.

The Chain of Custody system for wood procurement management was audited according to the SMS 1003-1 standard.

An application for a new environmental permit was submitted at the end of the year, complying with new legislation.

There was an explosion in the weak malodorous gas collection pipeline on 19 October 2004. Nobody was injured in the explosion and there were no production losses. An official accident inspection group has been set up to investigate the event. The gas collection pipeline was taken back into operation in December.

Environmental expenses totalled EUR 6.6 million (EUR 7.1 million). Annual environmental costs amounted to EUR 2.4 million (EUR 1.7 million) and depreciations of environmental protection investments EUR 4.2 million (EUR 5.0 million). A total of EUR 0.1 million (EUR 0.4 million) was spent on environmental investments.

## Research and Development

The new silos have enabled better control of chip feeding. As a result of this, the pulp quality has been more even. The pulp tear tensile strength and beating have been improved through long-term development work on optimizing the conditions in the cooking process and by placing more emphasis on raw material choices.

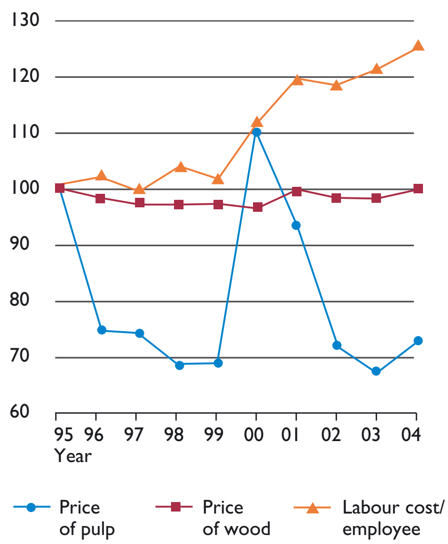
## Outlook for the Year 2005

The pulp market situation is likely to continue as in 2004. The instability of the situation is described by the likelihood of price increases and decreases. The changes in the EUR/USD exchange rate add to the unpredictability of sales prices and financial result.

According to the plan, Sunila Oy will run at full capacity in 2005.

The foremost investment to be carried out in 2005 is the rebuilding of the Sunila quay. During the repair, from May till November, the import of wood and pulp shipments by sea will require special arrangements.


### Indeces



# Organisation 1 January 2005

*Sunila Oy Board of Directors*
*Front row, left to right: Chairman Sverre Norrgård, Myllykoski Paper Oy and Deputy Chairman Jarmo Alm, Stora Enso Publication Paper GmbH & Co. KG..*
*Back row, left to right: Members Erkki Varis, Oy Metsä-Botnia Ab and Markku Halonen, Kemijärven Sellu Oy and Managing Director Juhani Kautto, Sunila Oy.*

## Board of Directors

| Directors, members | | Deputy members |
|---|---|---|
| Sverre Norrgård | Chairman | Heikki Räty |
| Jarmo Alm | Deputy Chairman | Jukka Heiko |
| Markku Halonen | | Jorma Kangas |
| Erkki Varis | | Tuomo Tuomela |

## Management Group

| | |
|---|---|
| Juhani Kautto | Managing Director |
| Ari Haakana | Business Development Manager |
| Markku Hynninen | Workers' Representative |
| Mikko Karppelin | Administration Manager |
| Kimmo Heinonen | Salaried Employees' Representative |
| Petri Lundén | Mill Services Manager |
| Pekka Pelkonen | Personnel Manager |
| Juha Piipponen | Development Manager |
| Jarmo Rinne | Production Director |
| Tea Sundén | Customer Service Manager |
| Jouni Virtanen | Finance Manager |

## Auditor

Ari Ahti, Authorised Public Accountant (KHT)

## Board Committees

| | Chairman |
|---|---|
| Marketing Committee | Hilkka Riihimäki |
| Forestry Committee | Seppo Saarinen |
| Finance Committee | Veli-Matti Tahvanainen |

## Shareholders

| | |
|---|---|
| Myllykoski Paper Oy | 50 % |
| Stora Enso Oyj | 50 % |

# Profit and Loss Account and Balance Sheet

| EUR million | PARENT COMPANY | | GROUP | |
|---|---|---|---|---|
| | **2004** | **2003** | **2004** | **2003** |
| **PROFIT AND LOSS ACCOUNT** | | | | |
| Turnover | 156.54 | 139.55 | 157.02 | 140.02 |
| Change in inventory of finished goods | -3.53 | -1.29 | -3.53 | -1.29 |
| Other income | 2.36 | 1.08 | 2.36 | 1.08 |
| Materials and supplies | -102.43 | -96.05 | -102.48 | -96.08 |
| Personnel cost | -15.76 | -15.26 | -15.96 | -15.45 |
| Depreciation | -11.74 | -12.29 | -16.02 | -16.42 |
| Other operating income | -13.72 | -14.56 | -8.71 | -9.42 |
| **= Operating profit** | **11.73** | **1.18** | **12.69** | **2.44** |
| - Financial income and expenditure | -1.23 | -3.74 | -2.18 | -5.01 |
| **= Profit before extraordinary items** | **10.50** | **-2.56** | **10.51** | **-2.57** |
| Extraordinary items | -5.70 | | | |
| Income taxes | -1.42 | 0.74 | -1.83 | 0.74 |
| **PROFIT FOR THE YEAR** | **3.38** | **-1.82** | **8.68** | **-1.83** |

| **BALANCE SHEET** | **2004** | **2003** | **2004** | **2003** |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Material goods | 119.66 | 126.61 | 152.90 | 164.13 |
| Investments | 0.88 | 0.88 | 0.59 | 0.59 |
| Inventories | 15.48 | 18.57 | 15.48 | 18.57 |
| Receivables, long-term | 2.83 | 3.64 | 2.83 | 3.64 |
| Receivables, short-term | 21.68 | 20.60 | 21.51 | 20.40 |
| Cash in hand and in bank | 8.74 | 2.51 | 8.75 | 2.53 |
| | **169.28** | **172.81** | **202.06** | **209.85** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| Shareholder equity, restricted | 13.00 | 13.00 | 13.00 | 13.00 |
| Shareholder equity, unrestricted | 53.97 | 50.60 | 84.34 | 75.66 |
| Affiliated companies | | | -0.02 | -0.02 |
| Minority interest | | | 0.01 | 0.01 |
| Accrued provisions | 41.31 | 35.61 | | |
| Liabilities, long-term | 22.59 | 29.20 | 61.88 | 72.50 |
| Liabilities, short-term | 38.40 | 44.40 | 42.85 | 48.70 |
| | **169.28** | **172.81** | **202.06** | **209.85** |

# Statement of Changes in the Financial Position

| EUR million | PARENT COMPANY | | GROUP | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| OPERATION | | | | |
| Turnover | 155.60 | 135.52 | 159.58 | 136.55 |
| - Operating expenditure, net | -131.68 | -117.55 | -130.41 | -118.50 |
| - Financial expenditure, net | -1.30 | -5.04 | -2.25 | -5.04 |
| - Taxes | -0.03 | -0.02 | -0.03 | -0.00 |
| - Other income and expenditure | | | | |
| Share in the profit of affiliated companies | | | | |
| **= Cash flow from the year's operation** | **22.58** | **12.91** | **26.89** | **13.01** |
| INVESTMENTS | | | | |
| - Investments, material | -4.79 | -10.51 | -4.79 | -10.51 |
| - Investments, shares | | 0.00 | 0.00 | 0.00 |
| + Sales of fixed assets | | | | 0.00 |
| **= Increase/decrease in capital after investments** | **17.79** | **2.41** | **22.10** | **2.50** |
| FINANCING | | | | |
| - Increase/decrease in other receivables | | | | -0.02 |
| + Increase/decrease in short-term liabilities | -5.77 | 6.29 | -5.66 | 6.23 |
| + Increase/decrease in long-term liabilities | -5.80 | -10.69 | -10.23 | -10.69 |
| Dividends and other profit distribution | | | | |
| + Increase in share capital | | | | |
| **= Increase/decrease in liquid assets** | **6.22** | **-1.99** | **6.21** | **-1.98** |
| **Liquid assets 31 Dec.** | **8.75** | **2.53** | **8.76** | **2.55** |

# Notes to the Financial Statements

## Accounting Policies

The financial statements have been prepared in accordance with the Finnish Accounting Act and other standards and regulations governing financial statements. The consolidated financial statements include the parent company and those companies in which the parent company owns more than half of the voting shares plus those affiliated companies in which the parent company owns more than 20 %.

Intercompany transactions, receivables and liabilities have been eliminated in consolidation. The company form of Sunivalli Oy was changed to Housing Co. Kotkan Sunivalli in 2003 and it was transferred to Current Assets. At the end of the accounting period 2004 two thirds of the shares had been sold.

Fixed assets are stated in the balance sheet at cost less planned depreciation. Planned depreciation for vital machinery in 1998 has been defined on the basis of the estimated replacement year, with 10 to 25 years of estimated economic lives. The estimated economic lives of buildings range from 20 to 40 years and those of machinery from 5 to 10 years. Tangible assets leased through financial leasing contracts are stated in the consolidated financial statements as fixed assets, and the obligations of these contracts as interest-bearing liabilities.

Inventories are stated at FIFO principle cost, including variable expenses resulting from purchase and manufacture as well as the related proportion of fixed expenses or at a lower, most probable sales price.

Receivables and liabilities in foreign currencies are stated at the average exchange rates at year-end.

Taxes included in the profit and loss account are stated as accounted.

## Notes to the Profit and Loss Account

| | **EUR million** | **2004** | **2003** |
|---|---|---|---|
| **1.** | **Turnover by market area** | | |
| | Finland | 96.59 | 81.37 |
| | Other EU countries | 39.04 | 36.18 |
| | Other parts of the world | 20.91 | 22.00 |
| | **Parent company** | **156.54** | **139.55** |
| | Subsidiaries | 0.48 | 0.47 |
| | **Group total** | **157.02** | **140.02** |
| **2.** | **Other income** | | |
| | Capital gains | 0.34 | 0.38 |
| | Rental income | | 0.70 |
| | Energy subsidy | 1.84 | |
| | Insurance indemnity | 0.19 | |
| | | **2.36** | **1.08** |
| **3.** | **Materials and supplies** | | |
| | Materials purchased | -92.92 | -84.74 |
| | Change in inventory | 0.45 | -0.95 |
| | External services purchased | -9.96 | -10.22 |
| | **Parent company** | **-102.43** | **-95.90** |
| | Subsidiaries | -0.05 | -0.03 |
| | **Group total** | **-102.48** | **-95.93** |
| **4.** | **Personnel cost** | | |
| | Management salaries and bonuses | -0.11 | -0.12 |
| | Other salaries and wages | -11.94 | -11.61 |
| | Pension cost | -2.10 | -2.38 |
| | Other indirect personnel cost | -1.57 | -1.10 |
| | Fringe benefits | -0.05 | -0.05 |
| | **Parent company** | **-15.76** | **-15.26** |
| | Subsidiaries | -0.20 | -0.19 |
| | **Group total** | **-15.96** | **-15.45** |
| | **Average number of** | | |
| | Salaried employees | 85 | 82 |
| | Workers | 236 | 239 |
| | **Parent company** | **321** | **321** |
| | Subsidiaries | **5** | **5** |
| | **Group total** | **326** | **326** |

| | | |
|---|---|---|
| **5. Planned depreciation** | | |
| Buildings | -1.26 | -1.37 |
| Machinery and equipment | -10.48 | -10.92 |
| **Parent company** | **-11.74** | **-12.29** |
| Subsidiaries and leasing | -4.28 | -4.13 |
| **Group total** | **-16.02** | **-16.42** |
| | | |
| **6. Financial income and expenditure** | | |
| Dividend income | 0.10 | 0.07 |
| Interest income | 0.07 | 0.05 |
| Net exchange rate difference | 0.06 | -2.04 |
| Interest expenditure | -1.41 | -1.81 |
| Other financial expenditure | -0.04 | -0.01 |
| **Parent company** | **-1.23** | **-3.74** |
| Subsidiaries | -0.95 | -1.26 |
| **Group total** | **-2.18** | **-5.01** |
| | | |
| **7. Extraordinary items and expenditure** | | |
| | | |
| **8. Change in accumulated depreciation difference** | -5.70 | |
| | | |
| **9. Direct taxes on operation** | -0.61 | -0.02 |
| Change in deferred tax receivable | -0.81 | 0.76 |
| Parent company | **-1.42** | **0.74** |
| Change in deferred tax | -0.41 | |
| **Group total** | **-1.83** | **0.74** |

## Notes to the Balance Sheet

**EUR million**

### 1. INTANGIBLE AND TANGIBLE ASSETS

| **Parent company** | **Tangible assets** Land areas | Buildings and constructions | Machinery and equipment | In progress |
|---|---|---|---|---|
| **Acquisition value 1 Jan.** | 1.27 | 50.20 | 236.57 | |
| Additions | | 0.74 | 2.66 | 0.27 |
| Reclassification | | | 0.27 | 1.39 |
| Sales | | | | -0.27 |
| Accumulated depreciation | | -16.39 | -145.31 | |
| Depreciation for period | | -1.26 | -10.48 | |
| **Balance 31 Dec.** | **1.27** | **33.29** | **83.72** | **1.39** |
| | | | | **119.66** |

| **Group** | **Tangible assets** Land areas | Buildings and constructions | Machinery and equipment | In progress |
|---|---|---|---|---|
| **Acquisition value 1 Jan.** | 1.44 | 52.14 | 374.68 | |
| Additions | | 0.74 | 2.66 | 0.27 |
| Reclassification | | | 0.27 | 1.39 |
| Sales | | | | -0.27 |
| Accumulated depreciation | | -18.33 | -246.06 | |
| Depreciation for period | | -1.26 | -14.76 | |
| **Balance 31 Dec.** | **1.44** | **33.29** | **116.78** | **1.39** |
| | | | | **152.90** |

| 2. INVESTMENTS | % of capital | Number of shares | Nominal value | Book value |
|---|---|---|---|---|
| **Shares in group companies** | | | | |
| Karhulan-Sunilan Rautatie Oy, Kotka | 100 | 300 | 0.051 | 0.254 |
| Kiinteistö Oy Sunilan Kesäniemi, Kotka | 77.8 | 4740 | 0.024 | 0.027 |
| **Participating interest companies** | | | | |
| Sunilan Kantola Oy, Kotka | 50 | 4205 | 0.210 | 0.210 |
| Sunilan Mittayhtiö Oy, Kotka | 33.3 | 8 | 0.008 | 0.008 |
| Sunilan Puhdistamo Oy, Kotka | 33.3 | 2944 | 0.294 | 0.294 |
| **Other shares** | | | | |
| RP Kuljetustekniikka Oy, Kotka | 8.1 | 20 | 0.003 | 0.003 |
| Others | | | 0.066 | 0.085 |
| **Parent company** | | | **0.656** | **0.883** |
| Shares and stock owned by subsidiaries | | | 0.0003 | |

| 3. INVENTORIES | 2004 | 2003 | Change |
|---|---|---|---|
| Materials | 9.17 | 8.73 | 0.45 |
| Finished products (Year 2003: | 6.31 | 9.84 | -3.53 |
| sales price) | **15.48** | **18.57** | **-3.08** |

| 4. RECEIVABLES | | 2004 | | 2003 |
|---|---|---|---|---|
| **Long-term** | | | | |
| Receivables from participating | | | | |
| interest companies | 2.83 | 2.83 | 3.63 | 3.63 |
| Other loan receivables | 0.00 | 0.00 | 0.01 | 0.01 |
| | | 2.83 | | 3.64 |
| **Short-term** | | | | |
| Loan receivables from participating interest companies | 0.81 | | 0.81 | |
| Accrued income from participating interest companies | 0.03 | 0.84 | 0.04 | 0.84 |
| Accrued income from group companies | | | | 0.00 |
| Other receivable | 19.12 | | 18.18 | |
| Other short-term receivable | 0.01 | | 0.02 | |
| Other accrued income | 1.71 | 20.84 | 0.74 | 18.95 |
| | | **21.68** | | **19.79** |
| Deferred tax receivable | | | | 0.81 |
| Subsidiaries | | -0.17 | | -0.20 |
| **Group total** | | **21.51** | | **20.40** |

| 5. CHANGES IN SHAREHOLDERS' EQUITY | Parent company | | Group | |
|---|---|---|---|---|
| | **2004** | **2003** | **2004** | **2003** |
| Share capital 1 Jan. | 13.00 | 13.00 | 13.00 | 13.00 |
| Capitalisation issue | | | | |
| Share capital 31 Dec. | 13.00 | 13.00 | 13.00 | 13.00 |
| Other reserve | | | | |
| Retained earnings 1 Jan. | 50.60 | 52.41 | 75.64 | 77.47 |
| Paid dividend | | | | |
| Profit for the year | 3.38 | -1.82 | 8.68 | -1.83 |
| Retained earnings 31 Dec. | 53.97 | 50.60 | 84.32 | 75.64 |
| **Shareholders' equity total 31 Dec.** | **66.97** | **63.60** | **97.32** | **88.64** |
| | | | | |
| **Distributable funds** | | | | |
| Retained earnings 31 Dec. | 53.97 | 50.60 | 84.32 | 75.64 |
| Portion of accumulated depreciation | | | | |
| difference transferred to shareholders' equity | | | -30.57 | -25.29 |
| **Total** | 53.97 | 50.60 | 53.75 | 50.36 |

## 6. APPROPRIATIONS

| | | |
|---|---|---|
| Accumulated depreciation | 41.31 | 35.61 |
| Deferred tax liability | **10.74** | **10.33** |

## 7. LONG-TERM LIABILITIES **22.59**

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 - |
|---|---|---|---|---|---|---|
| Repayment of loans | 16.61 | 9.68 | 3.87 | 1.23 | 0.70 | 7.12 |
| Repayment of leasing liabilities | 4.43 | 6.17 | 1.61 | 1.67 | 1.74 | 17.35 |
| Leasing liabilities total 31 Dec. 2004 | 32.97 | | | | | |

## 8. LIABILITIES

| | | 2004 | | 2003 |
|---|---|---|---|---|
| **Long-term** | | | | |
| * Loans from financial institutions | 16.70 | | 22.25 | |
| * Pension premium loans | 5.29 | | 6.36 | |
| * Other liabilities | 0.60 | 22.59 | 0.60 | 29.20 |
| | | **22.59** | | **29.20** |
| * Leasing | | **28.54** | | **32.97** |
| * Deferred tax liability | | 11.98 | | 10.33 |
| **Group total** | | **63.11** | | **72.50** |
| **Short-term** | | | | |
| * Advances received from participating interest companies | | | | |
| * Other liabilities to participating interest companies | 4,55 | 4.55 | 5.27 | 5.27 |
| * Other accounts payable | 12.08 | | 11.87 | |
| * Loans from financial institutions | 15.54 | | 21.57 | |
| * Pension premium loans | 1.07 | | 1.09 | |
| * Other | 1.08 | | 0.79 | |
| * Other accrued liabilities | 4.08 | 33.85 | 3.81 | 39.13 |
| | | **38.40** | | **44.40** |
| * Subsidiaries | | 0.03 | | 0.04 |
| * Leasing | | 4.43 | | 4.27 |
| **Group total** | | **42.85** | | **48.70** |

## 9. CONTINGENT LIABILITIES

| | Liabilities with mortgages given as security | | | |
|---|---|---|---|---|
| | Pension premium loans | Loans from financial institutions | Other mortgages | |
| Real estate mortgages | 25.81 | 2.33 | 18.45 | 5.04 |
| Business mortgages | 10.76 | | 10.76 | |
| Free | 49.14 | | | |
| **Total** | **85.72** | **2.33** | **29.21** | **5.04** |

## 10. OPEN DERIVATE CONTRACTS

31 Dec. accounts receivables were hedged with forward exchange contract, total value USD 1 million.

# Proposal of the Board of Directors

The Board of Directors proposes to the Annual Shareholders' Meeting that

| | | |
|---|---|---|
| the profit from the financial year | EUR | 3 378 387.94 |
| and the profit from the previous years | EUR | 50 596 041.97 |
| be transferred to the profit and loss account | | |
| where after the profit and loss account will contain a profit of | EUR | 53 974 429.91 |
| Consolidated unrestricted shareholders' equity is | | |
| | EUR | 53 750 903.20 |
| dividends to be paid per share | EUR | 115.00/share |
| totalling | | |
| | EUR | 14 950 000.00 |
| Balance carried forward to the next account | EUR | 39 024 429.91 |

Helsinki, 11 February 2005

*Sverre Norrgård*
*Chairman of the Board*

*Jarmo Alm* *Markku Halonen*

*Erkki Varis* *Juhani Kautto*
*Managing Director*

# Auditor's Report

I have audited the accounting records and the financial statements as well as administration by the Board of Directors and the Managing Director of Sunila Oy for the year ended on 31 December 2004. The financial statements, which include the report of the Board of Directors, consolidated and parent company income statements, balance sheets and notes to the financial statements, have been prepared by the Board of Directors and the Managing Director. Based on the audit, I express an opinion on these financial statements and the company's administration.

The audit has been conducted in accordance with the Finnish Generally Accepted Auditing Standards. Those standards require that the audit is performed to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures 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 the audit of the administration has been to examine that the Board of Directors and the Managing Director have complied with the rules of the Finnish Companies Act.

In my opinion, the financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements in Finland. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company result of operations, as well as of the financial position. The financial statements can be adopted and the members of the Board of Directors and the Managing Director can be discharged from liability for the period audited by me. The proposal made by the Board of Directors on how to deal with the retained earnings is in compliance with the Finnish Companies Act.

Helsinki, 21 February 2005

*Ari Ahti*
*Authorized Public Accountant*

# Statistical Information 1995 – 2004

| Group | | 1995 | 1996 | 1997 |
|---|---|---|---|---|
| Turnover | EUR million | 179.18 | 117.74 | 129.76 |
| change from previous year | % | 29.9 | -34.3 | 10.2 |
| Operating profit | EUR million | 51.47 | 3.63 | 13.63 |
| Operating profit | % of turnover | 28.7 | 3.1 | 10.5 |
| Profit/loss before extraordinary items | EUR million | 45.17 | -0.77 | 8.10 |
| Profit/loss before extraordinary items | % of turnover | 25.2 | -0.7 | 6.2 |
| Profit/loss for accounting period | EUR million | 24.18 | -0.91 | 9.57 |
| | | | | |
| Balance sheet total | EUR million | 187.25 | 164.16 | 176.02 |
| Fixed assets | EUR million | 127.81 | 120.95 | 128.41 |
| Inventories | EUR million | 12.90 | 9.05 | 11.16 |
| Current assets | EUR million | 46.54 | 34.16 | 36.46 |
| Adjusted equity | | 0.00 | 0.00 | 0.00 |
| Adjusted equity 1) | EUR million | 40.75 | 42.77 | 52.34 |
| Dividends paid | EUR million | 0 | 0 | 0 |
| Liabilities | EUR million | 146.50 | 121.39 | 123.68 |
| Fire insurance value of fixed assets | EUR million | 430.22 | 437.77 | 424.11 |
| | | | | |
| Gross investments | EUR million | 21.25 | 5.36 | 19.93 |
| of which leasing financing | EUR million | | | 11.34 |
| Depreciation | EUR million | 11.61 | 12.22 | 12.46 |
| Average number of personnel | Persons | 359 | 339 | 342 |
| Personnel cost | EUR million | 14.04 | 13.50 | 13.30 |
| | | | | |
| Return on equity 2) | % | 157.3 | -1.8 | 17.0 |
| Return on capital employed 3) | % | 34.4 | 3.1 | 9.3 |
| Current ratio 4) | | 0.75 | 0.61 | 0.90 |
| Equity ratio 5) | % of balance | 21.8 | 26.1 | 29.7 |
| Gearing 6) | % | 199.5 | 193.6 | 151.6 |
| Degree of self-financing of investments 7) | % | 182.1 | 211.8 | 120.2 |
| Price of pulp, EXW | EUR/tonne | 554 | 409 | 407 |
| Total production cost 8) | EUR/tonne | 422 | 422 | 393 |
| Interest-bearing net debts 9) | % of turnover | 45.4 | 70.3 | 61.2 |
| | | | | |
| Production, pulp | tonnes | 319447 | 269078 | 307343 |
| Crude tall oil | tonnes | 11002 | 9313 | 11119 |
| Turpentine | tonnes | 1388 | 1314 | 1563 |
| Operating rate | % | 94 | 79 | 90 |

## Notes to Statistical Information

**1) Adjusted equity**

Equity + Reserves +- Difference between actual and planned depreciation – Tax credit

**2) Return on equity %**

$$100 \times \frac{\text{Profit/loss before extraordinary items – Direct taxes}}{\text{Equity}^{a)}}$$

**3) Return on investment %**

$$100 \times \frac{\text{Profit/loss before extraordinary items + Interest and other financial expenses}}{\text{Balance sheet total – Non-interest-bearing liabilities}^{a)}}$$

**4) Current ratio**

$$100 \times \frac{\text{Inventories + Short-term receivables + Cash in bank and in hand}}{\text{Short-term liabilities}}$$

**5) Equity ratio**

$$100 \times \frac{\text{Adjusted equity + Minority interest + Accrued provisions}}{\text{Balance sheet total – Advances received}}$$

**6) Gearing %**

$$100 \times \frac{\text{Interest-bearing debts – Liquid funds}}{\text{Shareholders' equity + Minority interest + Accrued provisions}}$$

| 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|---|
| 117.82 | 117.84 | 187.43 | 161.18 | 128.25 | 140.02 | 157.02 |
| -9.2 | 0.0 | 59.1 | -14.0 | -20.4 | 9.2 | 12.1 |
| 1.35 | 8.29 | 68.19 | 34.70 | 3.42 | 2.44 | 12.69 |
| 1.1 | 7.0 | 36.4 | 21.5 | 2.7 | 1.7 | 8.1 |
| -2.72 | 4.60 | 63.82 | 30.38 | -0.10 | -2.57 | 10.51 |
| -2.3 | 3.9 | 34.1 | 18.8 | -0.1 | -1.8 | 6.7 |
| 1.89 | 3.31 | 45.12 | 21.54 | -0.07 | -1.83 | 8.68 |
| | | | | | | |
| 176.69 | 215.75 | 243.49 | 228.05 | 216.09 | 209.85 | 202.06 |
| 141.87 | 159.31 | 160.37 | 172.79 | 170.64 | 164.72 | 153.49 |
| 8.87 | 10.26 | 14.19 | 16.08 | 20.80 | 18.57 | 15.48 |
| 25.95 | 46.17 | 68.93 | 39.62 | 24.65 | 26.57 | 33.08 |
| 0.00 | | | | | | |
| 54.23 | 57.54 | 102.68 | 103.42 | 90.47 | 88.65 | 97.32 |
| 0 | 0 | 0 | 20.80 | 12.87 | 0.00 | 0.00 |
| 122.46 | 158.21 | 140.81 | 124.63 | 125.62 | 121.20 | 104.74 |
| 434.24 | 475.48 | 459.96 | 477.76 | 489.81 | 494.72 | 522.41 |
| | | | | | | |
| 23.50 | 28.68 | 12.62 | 26.30 | 12.30 | 11.65 | 4.79 |
| 13.55 | 22.65 | 3.81 | 3.74 | | | |
| 10.04 | 11.24 | 11.56 | 13.87 | 14.46 | 16.42 | 16.02 |
| 350 | 337 | 331 | 327 | 321 | 326 | 326 |
| 14.19 | 13.38 | 14.45 | 15.33 | 14.82 | 15.45 | 15.96 |
| | | | | | | |
| -5.1 | 8.2 | 79.7 | 29.5 | -0.1 | -2.9 | 11.3 |
| 1.1 | 5.2 | 34.8 | 17.0 | 1.9 | 1.3 | 6.8 |
| 0.77 | 1.02 | 1.69 | 1.45 | 0.97 | 0.84 | 1.07 |
| 30.7 | 26.7 | 42.2 | 45.3 | 41.9 | 42.2 | 48.2 |
| 166.6 | 185.3 | 58.6 | 79.4 | 103.2 | 110.3 | 77.6 |
| 44.0 | 9.5 | 506.2 | 102.7 | 86.5 | 110.9 | 561.1 |
| 378 | 387 | 613 | 520 | 419 | 378 | 408 |
| 397 | 385 | 410 | 426 | 422 | 407 | 393 |
| 76.7 | 90.5 | 32.1 | 51.0 | 72.8 | 69.8 | 48.1 |
| | | | | | | |
| 292394 | 285325 | 301097 | 300536 | 301840 | 330587 | 348555 |
| 10378 | 11687 | 10293 | 8719 | 8312 | 12732 | 11506 |
| 1581 | 1038 | 654 | 952 | 896 | 1219 | 1144 |
| 86 | 84 | 89 | 88 | 86 | 90 | 95 |

**7) Degree of self-financing of investments**

$$100 \times \frac{\text{Income from year's operations in the funds statement}}{\text{Net investments}}$$

**8) Total production cost**

$$100 \times \frac{\text{Turnover – Profit/loss before extraordinary items – Delivery cost}}{\text{Sales (tonnes)}}$$

**9) Interest-bearing net debts**

$$100 \times \frac{\text{Interest-bearing liabilities – Interest bearing current assets}}{\text{Turnover}}$$

[a] *Average at the beginning and end of the year*

# Operation Reviews

## Customer Service

Domestic pulp demand increased rapidly at the beginning of the year and this positive trend continued throughout the year. Export deliveries to the shareholders' mills increased also. The share of deliveries to the shareholders was 90 per cent (85 per cent). Exports accounted for 38 per cent (42 per cent) of the total deliveries.

Europe accounted for 65 per cent (71 per cent), the United States for 27 per cent (21 per cent) and China for 8 per cent (8 per cent) of the total exports sales.

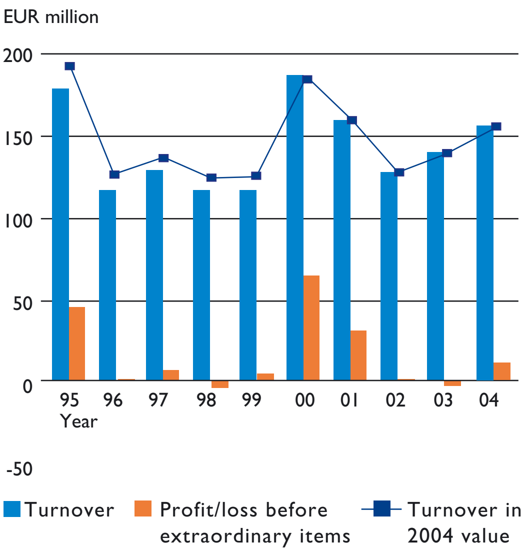
Of the total pulp exports, 87 per cent (81 per cent) were shipped through the Sunila harbour.

Of the total deliveries, 91 per cent (86 per cent) were for wood-containing printing papers.

The process enhancements and more efficient operations were reflected in better and more even pulp quality. Our customers have also given us positive feedback on this.

| | | 2004 | 2003 | Change % |
|---|---|---|---|---|
| Total deliveries | tonnes | 357 532 | 335 380 | + 7 |
| Deliveries to shareholders | tonnes | 321 833 | 285 693 | + 13 |
| Market pulp | tonnes | 35 698 | 49 687 | - 28 |
| Exports | tonnes | 137 240 | 140 734 | - 3 |
| Crude tall oil sales | tonnes | 11 505 | 12 732 | - 10 |
| Turpentine sales | tonnes | 1 145 | 1 219 | - 6 |
| Pulp production | tonnes | 348 555 | 330 587 | + 5 |
| Pulp stock 31 Dec. | tonnes | 15 912 | 24 887 | - 36 |
| Operating days | days | 349.0 | 347.0 | |

## Turnover / Result



## Production

A new annual production record of 348,555 tonnes was achieved. The previous record was exceeded by almost 18,000 tonnes, even though some 12,000 tonnes of production losses were recorded in the spring. The reasons for the production losses were two leakages of recovery boiler No 10 and especially the cooking plant problems, which persisted for several weeks. The production ran especially well from the middle of August till the Christmas stoppage. In this period, the average daily production was 1,040 tonnes.

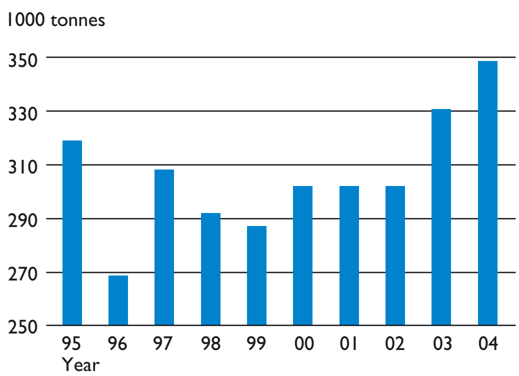
There were no production curtailments. The total number of operating days was 349.0 (347.0).

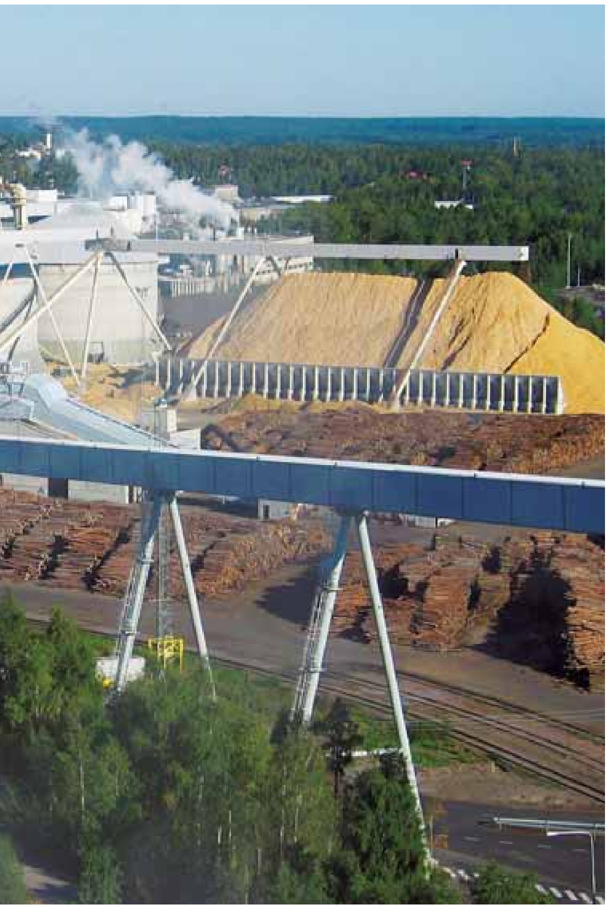
## Energy

Total energy production was 1,835 GWh (1,784 GWh). Black liquor and bark (biofuels) accounted for 98 per cent (98 per cent) of the energy production. The produced energy was utilised as process heat and electricity. Green Energy certificates, which are used for electricity generated from biofuels, were sold to Holland. The electricity production volume was 288 GWh (277 GWh) and consumption 278 GWh (270 GWh).

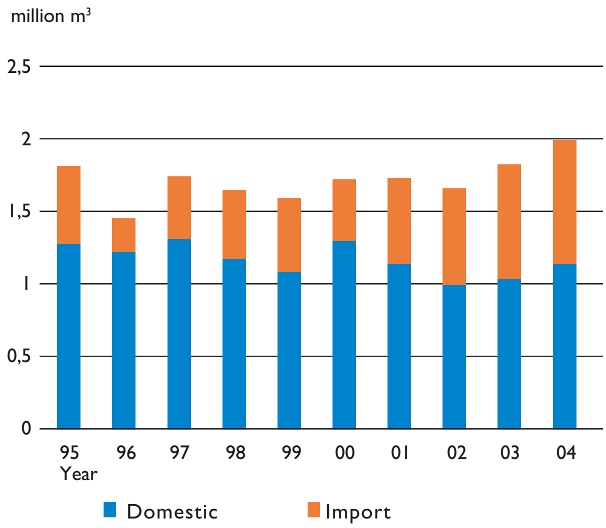
Natural gas consumption was 23.7 million $Nm^3$ (23.8 million $Nm^3$). The lime kilns accounted for 78 per cent (72 per cent) of the natural gas consumption. In addition to the lime kilns, natural gas is used as a secondary fuel in the burning of malodorous gases and as a booster fuel in the bark boiler and the other recovery boiler.

## Pulp production





## Wood procurement




## Wood Procurement

Due to increased production, the purchases of wood raw material increased further to 1,989,566 m³ (1,808,500 m³). The share of fresh wood was 89 per cent (79 per cent). Because of the import volumes, the share of certified wood was 46 per cent (45 per cent) of the total purchases.

The share of domestic raw material was 57 per cent (56 per cent). Of the imported wood, more than 90 per cent came from the Baltic countries.

When categorised by the delivery methods, the share of raw material delivered by road was 46 per cent (45 per cent), by rail 11 per cent (11 per cent) and by sea 43 per cent (44 per cent).

The Chain of Custody system for wood procurement management was certified according to the SMS 1003-1 standard.

| | | 2004 | 2003 | Change % |
|---|---|---|---|---|
| Total procurement | m³ | 1 989 566 | 1 808 485 | + 10 |
| Import | m³ | 866 054 | 791 131 | + 9 |
| Wood stock 31 Dec. | m³ | 50 101 | 35 903 | + 40 |

## Harbour

The total volume of traffic through the Sunila harbour grew from the previous year by 7 per cent to 925,400 tonnes (866,800 tonnes). The number of vessels visiting the harbour grew to 290 (280). The shipments of raw materials or products of Sunila Oy or its shareholding companies accounted for 99 per cent of the total traffic volume.

| | | 2004 | 2003 | Change % |
|---|---|---|---|---|
| Total volume | tonnes | 925 400 | 866 800 | + 7 |
| Pulp | tonnes | 156 000 | 162 800 | - 4 |
| Wood | m³ | 968 300 | 879 600 | + 10 |

## Investments

During the period under review, the development investments totalled EUR 0.6 million (EUR 7.4 million) and maintenance investments EUR 4.2 million (EUR 4.3 million).

The most important development investments were the continuation of the mill area traffic safety improvement project and the finishing work on the chip storage. In the traffic safety project, the office parking lot was widened and the parking arrangements at the southern gate of the mill were improved, and the hot cooling waters from the mill were led to the harbour in a pipeline.

The headbox of drying machine No 4 was renewed thus improving the pulp web profile and the condition of the pulp bales. Also the 110 kV electrical network, which connects the mill to the national electrical grid, was rebuilt. The Stal turbogenerator at the power plant was revised to keep up its operational reliability.

Some major projects which will be completed in 2005 were initiated in 2004. These are the upgrade of the pulp delivery and invoicing system and the overhaul of the Sunila harbour quay. The planning work for the quay rebuild was completed by the end of 2004. The overhaul of the quay will have a considerable effect on wood deliveries and pulp shipments through the Sunila harbour. During the repair work, these shipments will need to be managed by temporary arrangements.

## Research and Development

In 2004, development work was focused mainly on the follow-up and guidance of R&D projects carried out in co-operation with other parties. The most important partners have been KCL, Stora Enso and the Lappeenranta University of Technology Fibre Technology Competence Centre. Encouraging results were achieved e.g. in a project on fibre line strength delivery.

Better control of chip feeding into the process has helped in raising the pulp quality, and the runnability of the silos has been adjusted. Pulp strength delivery has been enhanced somewhat based on a long-term development work on optimizing the conditions in the cooking process and the raw material mix. The pulp tear tensile strength and beating have been improved.

The bleaching process improvement has been a co-operation project with Stora Enso Pulp Competence Centre. The emphasis here has been on the prevention of flocculation and more reliable runnability.

The utilisation of bark-containing waste as an energy source has been investigated. This study will continue in 2005.

## Environmental Protection

The latest EMAS environmental report (2002) was published in the autumn of 2003. The 2003 details were updated in a separate report, which was audited by DNV (an independent external auditor). The next full report will be published in the spring of 2005.

An application for a new environmental permit which complies with new legislation was submitted to the Southeast Finland Regional Environment Centre on 22 December 2004.

During the year, 14 (19) environmental inquiries were recorded, of which 10 (12) were made regarding odour emissions and 3 (3) regarding nuisance caused by dust. As in 2003, there were no inquiries regarding noise. There was one inquiry concerning mill truck traffic.

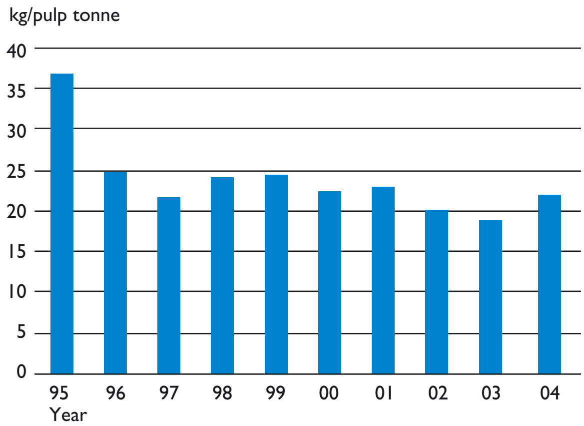
An explosion in the weak malodorous gas collection system caused the system to be out of operation from 19 October to 10 December 2004

The waste water load was below the permit limits. Recovery boiler and lime kiln emissions into air were also within the permit limits. With the bark boiler, emissions into air caused problems due to the low usage of the boiler. The bark boiler flue gas carbon monoxide content exceeded the permit limit on 70 days. The permit limit for the furnace temperature was not fully achieved according to the measurement when sewage sludge was burned.

Environmental costs totalled EUR 6.6 million (EUR 7.1 million). Of the total costs, environmental investment depreciations totalled EUR 4.2 million (EUR 5.0 million), and environmental costs EUR 2.4 million (EUR 1.7 million).

Environmental protection investments implemented in 2004 were a project intending to eliminate the odour emissions and work on decreasing chip silo dusting. The investments totalled EUR 0.1 million (EUR 0.4 million).

### Chemical oxygen demand (COD)




## Safety

As a part of the “Zero Accident” programme, all Sunila employees attended training to obtain Occupational Safety Cards in 2004. The Occupational Safety Card was also made a requirement to all subcontractors for any work to be done in the premises of Sunila Oy as of January 2005. Two days of training on occupational safety was arranged together with an insurance company for the contractors.

In the third year of implementation of the traffic safety project, additional parking space was built south of the mill area. Also the harbour road leading to the parking lots was made safer.

Based on interviews and a plant inspection tour, an occupational safety analysis was made of Sunila Oy’s operations in October. This analysis led to the compilation of an occupational safety improvement programme in November. The programme will be implemented in the coming years.

The number of accidents among Sunila Oy's employees (during work, on the way to/from work and in free time activities arranged by the company) decreased to 25 from 29 accidents in the previous year. The number of accidents which caused an absence of more than eight hours increased to 18 (15). The accidents caused 288 (225) days' absence from work. The employees of the partner companies with operations in the Sunila area had 6 (5) accidents.

An EU regulation to increase ship and port security (ISPS code) became effective as of 1 July 2004. Sunila Oy's harbour security plan was approved by the Finnish Maritime Administration on 1 June 2004. To comply with the regulation, fences and gates were built in June to isolate the harbour area.

The pipeline of the weak malodorous gas collection system exploded in October. Nobody was injured in the explosion and there was no fire, but the explosion was heard in a wide area in Kotka. The Safety Technology Authority (TUKES) appointed an accident inspection group to investigate the explosion.

## Personnel

At the end of the year, Sunila Oy employed 296 (293) permanent employees, the average of the year being 321 (321) persons.

The personnel's absences caused by illness or accidents were 6.6 per cent (8.1 per cent). The main reason for the absences were long-term rheumatic and locomotory organ diseases.

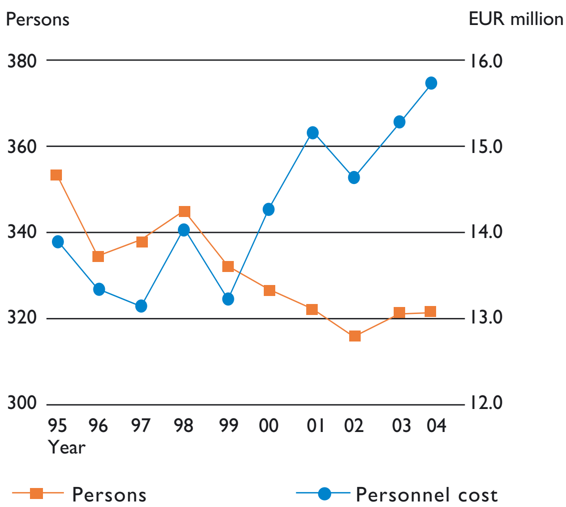
The training theme in 2004 was the Zero Accident programme. All Sunila Oy employees attended Occupational Safety Card training and also the temporary summer employees were given training.

In October, an Employees' Initiative System campaign was arranged. During the campaign, 40 new initiatives were made. The total number of initiatives made in 2004 was 126.

There were two meetings at the end of the year to inform the employees of the new pension law. These meetings were attended by 70 Sunila Oy's employees over 55 years of age. The average retirement age at Sunila Oy has already been postponed successfully. Both in 2003 and 2004, three persons retired to old-age pension.

There has been a personnel fund at Sunila Oy since 1991. The deposits into the fund from the profit sharing system amount to EUR 2.0 million in five years. The 2004 share of this was EUR 0.5 million.

### Personnel and personnel cost



# Sunila Oy values and principles

### Customer Satisfaction

We supply both our external and internal customers with products and services that meet their needs. This takes place reliably and at the right time.

### Profitable Operation

We guarantee the continuation of our operations by utilising our production capability fully and cost-efficiently.

### Continuous Improvement

We develop our production and operating processes, our own work and our capabilities continuously.

### Responsibility for People and the Environment

We recognise the environmental and safety impacts of our operations. We reduce the harmful impacts of our operations and prevent problems and realisation of risks by applying the best available practises. We follow the principles of sustainable development.

### Successful Co-operation

We encourage a positive working environment and good human relations. We interact with the surrounding community and inform of our operations openly.

EMAS

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