

# Development of Operations in 2002

## Strategic Return Target and Value Creation

### Weighted Average Cost of Capital ("WACC")

WACC represents the aggregate cost of debt and equity. The cost of debt for Stora Enso's current loan portfolio approximates 5%. The cost of equity represents a risk-free long-term interest rate of 4.5% with an added risk premium of 4%, giving an aggregate cost after tax of 8.5%. Assuming an average tax rate of 35%, the pre-tax cost of equity is approximately 13% and, with a debt/equity ratio of 0.8, the WACC before tax is around 9.5%, being the figure applicable to the ROCE calculations.

### Return On Capital Employed ("ROCE")

One of the key Group targets is a ROCE of 13% over the economic cycle. ROCE is defined as operating profit, excluding non-recurring items, divided by average capital employed. The ROCE is compared to the WACC and thus Stora Enso creates value for its shareholders when ROCE exceeds WACC.

The value created by product area is shown below, where the WACC based on average operating capital is deducted from operating profit, excluding non-recurring items, to give the value created. The same WACC is applied to all product areas except for Forest, which uses a rate of 8% as a result of lower risk at operating level.

## Operating Profit and Value Creation by Product Area

EUR million	Operating Profit			Value Creation		
	Year Ended 31 December			Year Ended 31 December		
	2000	2001	2002	2000	2001	2002
Magazine Paper	399.4	346.9	79.3	141.9	4.7	-221.8
Newsprint	268.3	508.8	240.8	133.8	386.0	114.9
Fine Paper	688.8	394.5	292.6	350.1	-38.9	-56.9
Packaging Boards	441.3	346.2	365.8	154.7	76.0	59.7
Timber Products	73.3	12.6	46.8	34.0	-27.9	4.6
Merchants	9.9	-7.2	5.5	-11.2	-28.6	-12.0
Forest	115.3	88.1	96.3	6.8	-14.5	-6.6
Other	-35.1	-43.2	-51.8	-	-	-
Continuing operations total	1 961.2	1 646.7	1 075.3	739.5	238.8	-79.0
Goodwill amortisation	88.3	151.5	148.8	-	-	-
Discontinued operations, energy	52.7	-	-	-	-	-
<b>Group Total, excl. non-recurring items</b>	<b>1 925.6</b>	<b>1 495.2</b>	<b>926.5</b>	<b>778.5</b>	<b>107.1</b>	<b>-375.8</b>

## Market

Paper and other forest products are produced globally and used throughout the world; the table below shows total consumption of paper and board per main market area. Gross Domestic Product rates have traditionally been a leading indicator for increases in paper and

board consumption, though population growth and urbanisation are key elements affecting future consumption in various locations. The ongoing restructuring in both the supplier chain and customer base also influences the market, triggering a need for cost competitiveness and a higher level of service.

### Estimated Consumption of Paper and Board 2002

Tonnes, million	Western Europe	North America	Asia (incl. Oceania)
Newsprint	9.8	11.3	10.3
Uncoated mechanical	4.5	5.6	1.8
Coated magazine paper	6.3	5.2	2.1
Coated fine paper	7.1	5.9	8.7
Uncoated fine paper	8.9*	13.5	18.1
Containerboards	20.3	30.2	29.3
Cartonboards	6.5	12.7	10.7

\* Bulk grades only

Source: RISI February 2003

## Deliveries

The low demand that began already in 2001 continued throughout 2002. Deliveries of paper and board increased by 2%. The low order level, due to the soft economy, was matched by production curtailments to avoid excessive inventories; total curtailments were 1 257 000 (1 540 000) tonnes, equal to about 8% of total capacity. Timber product deliveries increased by 5% compared to the previous year.

The table below sets out Group deliveries but, to achieve compatibility between the years, the following adjustments for Consolidated Papers pre-acquisition deliveries should be added to the figures shown for 2000; an increase of 797 000 tonnes in magazine paper, 492 000 tonnes in fine paper and 20 000 tonnes in packaging boards.

### Deliveries by Product Area

1 000 tonnes	Year Ended 31 December			Change %	Curtailments	
	2000	2001	2002		2001	2002
Magazine Paper	3 269	3 871	3 908	+1	560	569
Newsprint	3 134	3 031	2 899	-4	130	305
Fine Paper	3 151	3 191	3 156	-1	670	250
Packaging Boards	3 417	2 765	3 186	+15	180	133
Divested paper units	-	-	-	-	-	-
<b>Total Paper and Board Deliveries</b>	<b>12 971</b>	<b>12 858</b>	<b>13 149</b>	<b>+2</b>	<b>1 540</b>	<b>1 257</b>
Timber Products, 1 000 cubic metres	4 880	4 860	5 112	+5		
Corrugated board, million square metres	404	434	546	+26		

Stora Enso's marketing is global though the home market is Europe, which accounts for 70% (69%) of

sales; the North American market represents 19% (20%) and Asia Pacific 8% (7%).

### External Sales by Destination and Origin

EUR million	Year Ended 31 December					
	Sales By Destination			Sales By Invoice Origin		
	2000	2001	2002	2000	2001	2002
Austria	212.8	213.1	195.4	365.3	310.9	315.1
Belgium	366.8	345.1	301.3	212.8	237.8	213.2
Denmark	319.8	307.6	297.9	131.3	116.2	111.7
Finland	821.8	776.0	780.6	4 563.7	4 370.2	4 151.0
France	1 035.4	1 007.0	965.5	529.8	537.8	486.4
Germany	1 987.4	1 840.3	1 673.6	1 518.6	1 489.9	1 442.2
Italy	520.6	403.2	391.5	6.2	0.6	0.1
Netherlands	610.1	581.9	488.4	242.9	247.6	234.0
Portugal	61.7	71.3	60.9	136.9	80.3	59.7
Spain	495.9	445.5	463.4	135.8	139.4	141.5
Sweden	1 052.3	1 026.6	1 034.2	3 315.8	2 980.2	2 895.6
UK	1 446.4	1 324.8	1 053.4	254.7	157.2	59.1
Other EU	221.0	197.8	197.4	3.6	0.2	0.1
<b>Total EU</b>	<b>9 152.0</b>	<b>8 540.2</b>	<b>7 903.5</b>	<b>11 417.4</b>	<b>10 668.3</b>	<b>10 109.7</b>
Other Europe	788.5	813.2	981.4	227.0	252.4	290.1
<b>Total Europe</b>	<b>9 940.5</b>	<b>9 353.4</b>	<b>8 884.9</b>	<b>11 644.4</b>	<b>10 920.7</b>	<b>10 399.8</b>
Canada	76.4	169.4	160.0	363.1	384.0	290.2
China	190.4	188.8	201.5	119.9	111.6	122.3
USA	1 436.3	2 469.7	2 267.3	845.2	2 067.2	1 909.6
Others	1 373.4	1 327.5	1 268.9	44.4	25.3	60.7
<b>Total</b>	<b>13 017.0</b>	<b>13 508.8</b>	<b>12 782.6</b>	<b>13 017.0</b>	<b>13 508.8</b>	<b>12 782.6</b>

### Financial Result (Excluding non-recurring items)

Sales in 2002 totalled EUR 12 782.6 (EUR 13 508.8) million, a decrease of EUR 726.2 million or 5.4% on the previous year; average prices also decreased in all product areas. Sales volumes increased in Magazine Paper, Packaging Boards and Timber Products but decreased in Newsprint and to some extent in Fine Paper.

Operating profit excluding non-recurring items was EUR 926.5 million or 7.2% of sales (EUR 1 495.2 million or 11.1%), a decrease of 38.0% on the previous year. Magazine Paper, Newsprint and Fine Paper reported lower operating profits than in 2001, mainly due to lower sales prices, while Packaging Boards and Timber Products increased profits. The weakening of the US dollar reduced profits by EUR 28 million, which was offset by hedges.

#### Magazine Paper

Operating profit was EUR 79.3 (EUR 346.9) million, a decrease of EUR 267.6 million or 77% on 2001 mainly as a result of lower sales prices which was, however, to some extent compensated by increased volumes and lower variable costs. Curtailments of 569 000 (560 000) tonnes necessitated by low order volumes led to reduced productivity and somewhat higher relative fixed costs.

#### Newsprint

Operating profit was EUR 240.8 (EUR 508.8) million, a decrease of EUR 268.0 million or 53% caused mainly by lower sales prices and volumes, though somewhat higher recycled paper prices also had a negative effect. Curtailments of 305 000 (130 000) tonnes were taken to adjust to demand.

#### Fine Paper

Operating profit was EUR 292.6 (EUR 394.5) million, a decrease of EUR 101.9 million or 26% related to lower sales prices only partly offset by lower variable costs. Curtailments amounted to 250 000 (670 000) tonnes.

#### Packaging Boards

Operating profit was EUR 365.8 (EUR 346.2) million, an increase of EUR 19.6 million or 6%, higher sales volumes and somewhat lower variable costs having a greater impact than lower sales prices. Curtailments during the year were 133 000 (180 000) tonnes.

#### Timber Products

Operating profit was EUR 46.8 (EUR 12.6) million, an increase of EUR 34.2 million due primarily to higher volumes and lower fixed costs, partly offset by lower sales prices and increased personnel costs.

### Merchants

Operating profit was EUR 5.5 (EUR -7.2) million, an increase of EUR 12.7 million as a result of the closure of the unprofitable unit in England.

### Forest

Operating profit was EUR 96.3 (EUR 88.1) million, an increase of EUR 8.2 million or 9% primarily as a result of higher prices and volumes.

### Other

Operating losses amounted to EUR 51.8 (EUR 43.2) million.

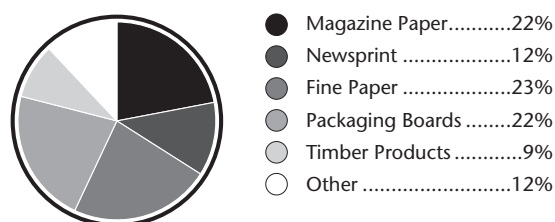
Sales, operating profit (EBIT) and return on operating capital (ROOC) per product area, excluding non-recurring items, are shown in the table below, with a specification by quarter shown on page 22.

## Sales and Operating Profit by Product Area

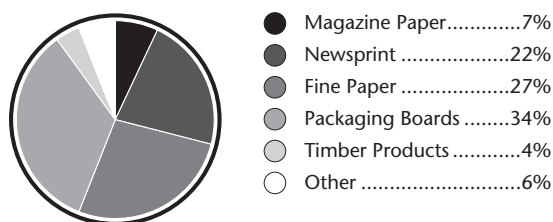
EUR million	Sales			Operating Profit			Return on Operating Capital % *		
	2000	2001	2002	2000	2001	2002	2000	2001	2002
Magazine Paper	2 818.8	3 449.0	3 036.8	399.4	346.9	79.3	15.5	10.1	2.6
Newsprint	1 766.7	1 933.9	1 641.5	268.3	508.8	240.8	19.9	41.4	19.1
Fine Paper	3 473.2	3 617.5	3 108.0	688.8	394.5	292.6	20.3	9.1	8.4
Packaging Boards	2 975.0	2 724.0	3 043.4	441.3	346.2	365.8	15.4	12.8	12.0
Timber Products	1 242.1	1 180.5	1 235.2	73.3	12.6	46.8	18.6	3.1	11.1
Merchants	890.6	840.3	720.6	9.9	-7.2	5.5	4.7	-3.4	3.1
Forest	1 877.4	1 825.6	1 958.7	115.3	88.1	96.3	8.5	6.9	7.5
Other	-2 066.5	-2 062.0	-1 961.6	-35.1	-43.2	-51.8	-	-	-
<b>Continuing Operations Total</b>	<b>12 977.3</b>	<b>13 508.8</b>	<b>12 782.6</b>	<b>1 961.2</b>	<b>1 646.7</b>	<b>1 075.3</b>	-	-	-
Discontinued, Energy	70.3	-	-	52.7	-	-	-	-	-
Internal sales, Energy	-30.6	-	-	-	-	-	-	-	-
Goodwill amortisation	-	-	-	-88.3	-151.5	-148.8	-	-	-
<b>Total excl. Non-Recurring Items</b>	<b>13 017.0</b>	<b>13 508.8</b>	<b>12 782.6</b>	<b>1 925.6</b>	<b>1 495.2</b>	<b>926.5</b>	<b>16.8</b>	<b>10.8</b>	<b>7.1</b>
Non-recurring items	-	-	-	445.7	-8.3	-1 078.1	-	-	-
<b>Total</b>	<b>13 017.0</b>	<b>13 508.8</b>	<b>12 782.6</b>	<b>2 371.3</b>	<b>1 486.9</b>	<b>-151.6</b>	<b>20.7</b>	<b>10.7</b>	<b>-1.5</b>

\*) Group figures represent return on capital employed

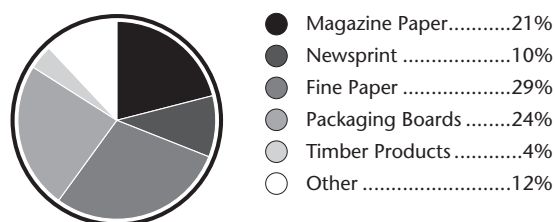
### Sales by Product Area



### Operating Profit by Product Area



### Operating Capital by Product Area



## Non-recurring Items

Exceptional transactions not related to normal business operations are accounted for as non-recurring items, always being recorded at Group level; segment results for operational reporting expressly exclude these, though the IAS-based segment notes allocate these items to the segments. The items/transactions must

meet certain criteria to be accounted for as non-recurring, amongst others they must impact on earnings per share by at least one cent. The most common non-recurring items are capital gains, additional write-downs and restructuring provisions and gains; shown below are the 2002 non-recurring items, the main items relating to impairments charges and restructuring.

Non-recurring Items					
EUR million	Q1/02	Q2/02	Q3/02	Q4/02	2002
Sale of Billerud Shares	-	76.7	-	-	76.7
Closing of Papyrus UK operations	-	-25.1	-	-	-25.1
Closing cost at Summa Mill in Finland	-	-	-8.8	-	-8.8
North America Profit Enhancement Plan	-	-	-54.0	1.1	-52.9
North America Goodwill Impairment charges	-	-	-932.5	18.6	-913.9
North America Asset Impairment charges	-	-	-234.2	4.7	-229.5
Sale of Finnish Forest	-	-	-	25.9	25.9
Sale of US Forest	-	-	-	49.5	49.5
<b>Total</b>	-	<b>51.6</b>	<b>-1 229.5</b>	<b>99.8</b>	<b>-1 078.1</b>
Tax on above amounts	-	-17.1	96.6	-24.1	55.4
Tax effect related to depreciation of shares*	-	-	-	298.4	298.4
<b>Total after tax</b>	-	<b>34.5</b>	<b>-1 132.9</b>	<b>374.1</b>	<b>-724.3</b>
<b>EPS effect</b>	-	<b>0.03</b>	<b>-1.27</b>	<b>0.42</b>	<b>-0.82</b>

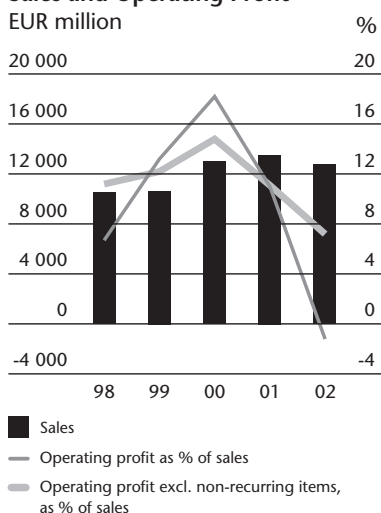
\* Stora Enso North America, Corp.

## Income Statement in Brief

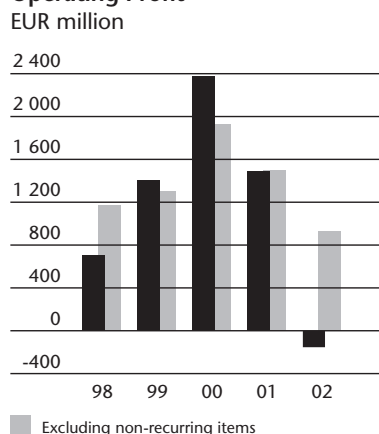
EUR million	Year Ended 31 December			Change %	Per Share, EUR		
	2000	2001	2002		2000	2001	2002
<b>Sales</b>	<b>13 017.0</b>	<b>13 508.8</b>	<b>12 782.6</b>	<b>-5.4</b>	<b>16.03</b>	<b>14.98</b>	<b>14.21</b>
EBITDA* excl. non-recurring items	2 970.2	2 762.8	2 172.0	-21.4	3.66	3.06	2.42
Operating profit excl. non-recurring items	1 925.6	1 495.2	926.5	-38.0	2.37	1.66	1.05
Non-recurring items	445.7	-8.3	-1 078.1	-	0.55	-0.01	-1.22
<b>Operating Profit</b>	<b>2 371.3</b>	<b>1 486.9</b>	<b>-151.6</b>	<b>-</b>	<b>2.92</b>	<b>1.65</b>	<b>-0.17</b>
Share of profits in Associated Companies	20.6	79.6	14.6	-	0.03	0.09	0.02
Financial net	-292.9	-343.5	-206.2	-	-0.36	-0.38	-0.24
<b>Profit before Tax and Minority Interests</b>	<b>2 099.0</b>	<b>1 223.0</b>	<b>-343.2</b>	<b>-</b>	<b>2.58</b>	<b>1.36</b>	<b>-0.39</b>
Tax	-650.3	-386.2	-177.5	-	-0.79	-0.43	-0.20
Non-recurring tax items	-	86.6	298.4	-	-	0.10	0.34
Minority items	-13.7	2.9	0.1	-	-0.02	-	-
<b>Net Profit for the Period</b>	<b>1 435.0</b>	<b>926.3</b>	<b>-222.2</b>	<b>-</b>	<b>1.77</b>	<b>1.03</b>	<b>-0.25</b>
<b>Net Profit for the Period excl. non-recurring items</b>	<b>1 071.9</b>	<b>845.3</b>	<b>504.9</b>	<b>-</b>	<b>1.32</b>	<b>0.94</b>	<b>0.57</b>

\*Earnings before Interest, Taxes, Depreciation and Amortisation

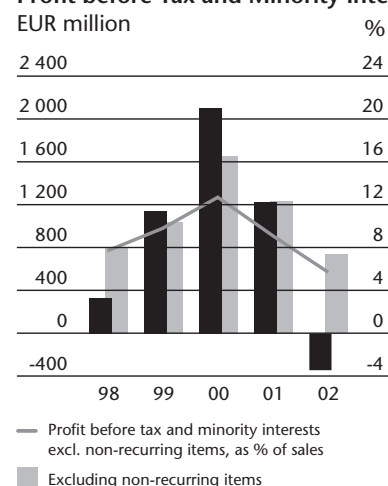
### Sales and Operating Profit



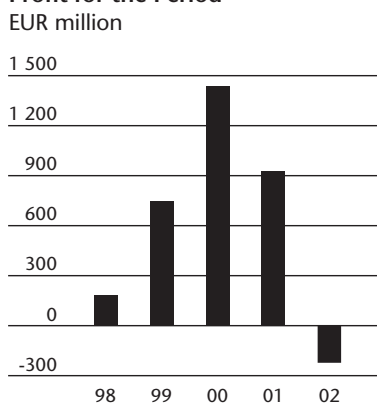
### Operating Profit



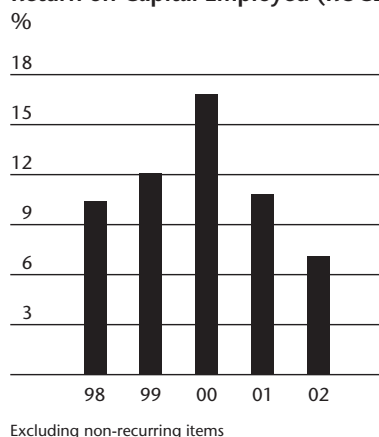
### Profit before Tax and Minority Interests



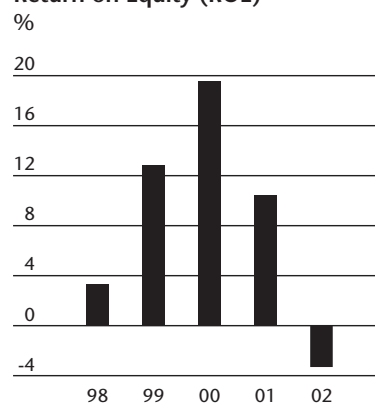
### Profit for the Period



### Return on Capital Employed (ROCE)



### Return on Equity (ROE)



Depreciation and goodwill amortisation totalled EUR 2 441.9 (EUR 1 267.6) million. An impairment charge related to North American assets was recorded in the third quarter; including currency changes in the fourth quarter, the charge amounts to EUR 1 142.3 million. After adjustment of the impairment charge depreciations and amortisations amounted to EUR 1 299.6 million an increase of EUR 32.0 million.

The share of results of associated companies amounted to EUR 14.6 (EUR 79.6) million, of which EUR -5.5 million came from Tornator Timberland Oy, offset by EUR 5.4 million from Billerud AB and positive results in other associated companies.

Operating profit for the year totalled EUR -151.6 (EUR 1 486.9) million, including non-recurring items of EUR -1 078.1 million.

Net interest costs for the year totalled EUR 229.5 million, which is 4.6% of interest-bearing net liabilities and EUR 103.6 million less than in the previous year, due mainly to lower interest rates and a positive cash flow. Foreign exchange gains in the financials

items for the year were EUR 44.9 million and dividend income was EUR 9.2 million. The valuation of financial instruments and derivatives resulted in a net loss of EUR 50.4 million; these items are valued at market value, thus causing volatility in net financial items, although of a non-cash nature.

Profit before taxes and minority interests, excluding non-recurring items, amounted to EUR 734.9 (EUR 1 231.3) million.

Net taxes were a positive EUR 120.9 (EUR -299.6) million, thus increasing EPS by EUR 0.14, though cumulative tax excluding non-recurring items represents an underlying rate of 31.4% (31.6%). The write-down of shares in the parent company relating to the impairment depreciation in Stora Enso North America Corp. is tax-deductible according to advanced tax ruling. At the current tax rate of 29%, the value of this tax deduction, which is considered a non-recurring item, is EUR 298.4 million of which EUR 253.4 million will be utilised against the 2002 results with the balance of EUR 45.0 million being deferred to 2003.

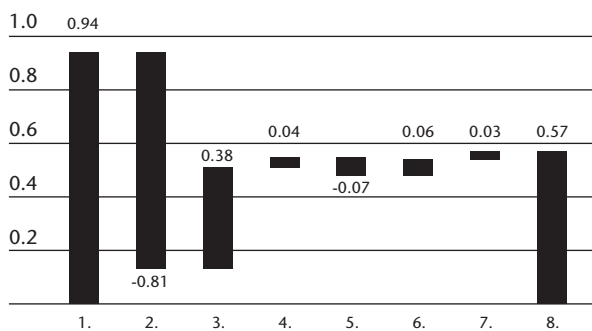
Minority interests totalled EUR 0.1 (EUR 2.9) million, leaving a net loss for the period of EUR -222.2 (EUR 926.3 profit) million.

The return on capital employed was 7.1% (10.8%) before non-recurring items. Capital employed was EUR

11 242.4 million at the end of the period, a net decrease of EUR 2 616.7 million from the beginning of the year, reflecting impairment charges in North America, the weakening of the US dollar and divestment of assets.

### Change in EPS from 2001 to 2002

EUR

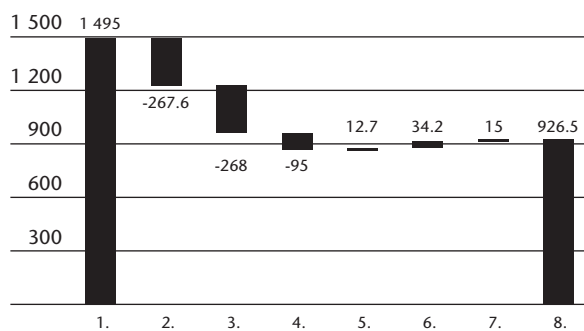


1. Group total 2001 2. Sales prices 3. Sales volume 4. Energy 5. Fixed costs  
6. Financing costs 7. Other 8. Group total 2002

Excluding non-recurring items

### Change in Operating Profit

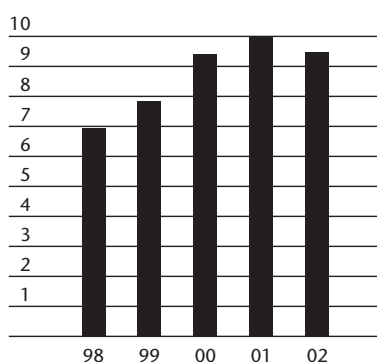
EUR million



1. Operating Profit 2001 2. Magazine Paper 3. Newsprint 4. Fine Paper  
5. Packaging Boards 6. Timber Products 7. Other 8. Operating Profit 2002

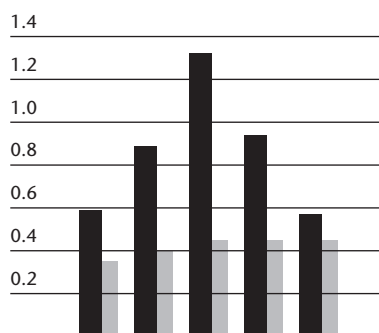
### Equity per Share

EUR



### Earnings and Dividend per Share

EUR



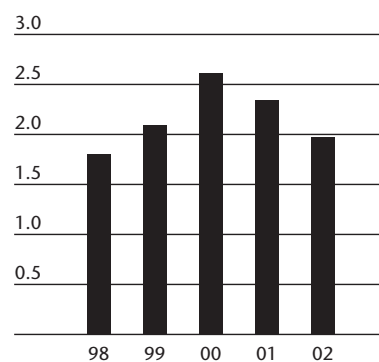
■ Earnings per share, excl. non-recurring items

■ Dividend per share

\* Board's dividend proposal

### Cash Earnings per Share

EUR



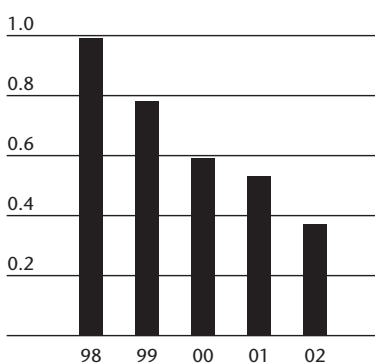
Excluding non-recurring items

### Change in Interest-bearing Net Liabilities

Cash flow from operations totalled EUR 2 083.8 (EUR 2 757.5) million. The cash flow after investing activities amounted to EUR 1 247.7 (EUR 1 849.9) million and the cash earnings per share excluding non-recurring items EUR 1.97 (EUR 2.34).

At the year-end interest-bearing net liabilities were EUR 3 055.1 (EUR 4 819.9) million, down EUR 1 764.8 million compared with 2001, due to positive operational cash-flow, sale of forest assets and translation effect of the lower US-dollar. Unutilised credit facilities and cash and cash-equivalents reserves totalled EUR 1.8 billion.

### Debt/Equity Ratio

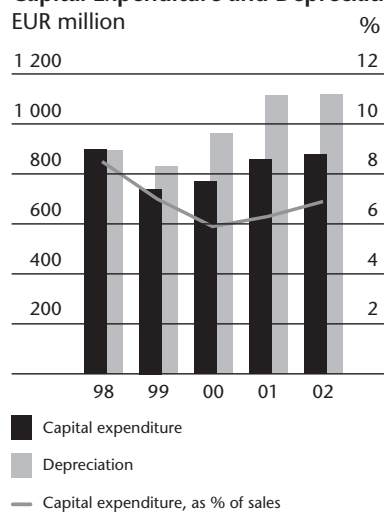


Target ≤ 0.8

### Capital Expenditure

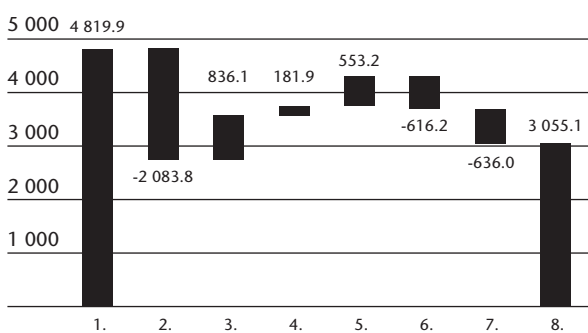
Capital expenditure for the whole year totalled EUR 877.6 million, which is 70.5% of depreciation; this is lower than planned as some expenditures have run over to 2003. The main investments were the new PM4 (EUR 254.1 million) and rebuilding of PM3 (EUR 28.6 million) at Langerbrugge in Belgium, the rebuilding of Oulu PM6 in Finland (EUR 16.5 million), the folding boxboard improvement at Baienfurt in Germany (EUR 10.2 million) and finishing department investment at Fors in Sweden (EUR 10.6 million).

### Capital Expenditure and Depreciation



### Change in Interest-bearing Net Liabilities

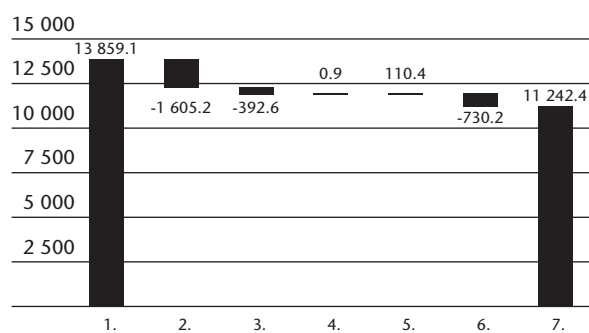
EUR million



1. Interest-bearing Net Liabilities 1 Jan 2002 2. Cash flow from operations  
3. Net cash used in investing activities 4. Net cash used in taxes and financing items 5. Net cash used in equity items 6. Structural changes 7. Other changes and translation differences 8. Interest-bearing Net Liabilities 31 Dec 2002

### Change in Capital Employed

EUR million



1. Capital Employed 1 Jan 2002 2. Investing activities, net of depreciation 3. Acquisitions and disposals 4. Change in working capital 5. Change in net tax liabilities 6. Translation differences 7. Capital Employed 31 Dec 2002

## Capital Structure

EUR million	2000	2001	2002	Per Share, EUR
Fixed assets	15 280.7	14 882.2	12 089.4	13.88
Working capital	1 276.2	1 224.2	1 182.2	1.36
Operating capital	16 556.9	16 106.4	13 271.6	15.24
Net tax liabilities	-2 654.0	-2 247.3	-2 029.2	-2.33
<b>Capital Employed</b>	<b>13 902.9</b>	<b>13 859.1</b>	<b>11 242.4</b>	<b>12.91</b>
Shareholders' equity	8 570.8	8 989.0	8 156.9	9.36
Minority interests	149.4	50.2	30.4	0.04
Interest-bearing net liabilities	5 182.7	4 819.9	3 055.1	3.51
	<b>13 902.9</b>	<b>13 859.1</b>	<b>11 242.4</b>	<b>12.91</b>

## Capital Employed

EUR million	Operating Capital		Net Tax Liabilities		Capital Employed	
Finland	4 232.9	31.9%	379.8	18.7%	3 872.0	34.4%
USA	3 157.1	23.8%	503.1	24.8%	2 654.0	23.6%
Sweden	2 773.8	20.9%	887.1	43.7%	1 886.7	16.8%
Germany	1 011.2	7.6%	227.4	11.2%	783.8	7.0%
Canada	447.9	3.4%	-43.2	-2.1%	491.1	4.4%
France	266.3	2.0%	31.4	1.5%	235.0	2.1%
Portugal	219.3	1.7%	-6.2	-0.3%	225.5	2.0%
China	203.6	1.5%	0.0	0.0%	203.7	1.8%
Austria	179.8	1.4%	17.5	0.9%	162.3	1.4%
Other	779.7	5.8%	32.3	1.6%	728.3	6.5%
<b>Total</b>	<b>13 271.6</b>	<b>100%</b>	<b>2 029.2</b>	<b>100%</b>	<b>11 242.4</b>	<b>100%</b>

## Cash Flow by Product Area

EUR million	Magazine		Fine	Packaging	Timber	Ongoing	
	Paper	Newsprint	Paper	Boards	Products	Other Operations	
Operating profit (excluding goodwill and non-recurring items)	79.3	240.8	292.6	365.8	46.8	50.0	1 075.3
Depreciation, non-recurring items and adjustments	314.3	125.8	267.3	254.9	48.2	50.1	1 060.6
Change in working capital	54.9	61.9	50.4	-82.6	-68.7	-68.0	-52.1
<b>Cash Flow from Operations</b>	<b>448.5</b>	<b>428.5</b>	<b>610.3</b>	<b>538.1</b>	<b>26.3</b>	<b>32.1</b>	<b>2 083.8</b>

## Change in Interest-bearing Net Liabilities

EUR million	Ongoing Operations	Structural Changes	Group Cash Flow	Translation Difference	Impact on the BS
Operating profit	-306.0	154.4	-151.6	0.0	-151.6
Depreciation	2 441.9	0.0	2 441.9	-154.8	2 287.1
Change in working capital	-52.1	51.2	-0.9	42.9	42.0
<b>Cash Flow from Operations</b>	<b>2 083.8</b>	<b>205.6</b>	<b>2 289.4</b>	<b>-111.9</b>	<b>2 177.5</b>
Capital expenditure	-877.6	0.0	-877.6	0.0	-877.6
Acquisitions	-9.3	-141.1	-150.4	0.0	-150.4
Disposals	58.0	545.6	603.6	0.0	603.6
Other change in fixed assets	-7.2	-11.9	-19.1	949.2	930.1
<b>Operating Cash Flow</b>	<b>1 247.7</b>	<b>598.2</b>	<b>1 845.9</b>	<b>837.3</b>	<b>2 683.2</b>
Net financing items (incl. Associated Companies)	-190.6	0.0	-190.6	0.0	-190.6
Taxes paid	8.7	0.6	9.3	-107.1	-97.8
Share issue	0.0	0.0	0.0	0.0	0.0
Dividends	-403.6	0.0	-403.6	0.0	-403.6
Share buy-back	-287.3	0.0	-287.3	0.0	-287.3
Other change in equity and minority items	137.7	17.4	155.1	-94.2	60.9
<b>Change in Interest-bearing Net Liabilities</b>	<b>512.6</b>	<b>616.2</b>	<b>1 128.8</b>	<b>636.0</b>	<b>1 764.8</b>

## Strategy in Action during 2002

### *Fibre Sources*

Practical steps taken by the Group in 2002 to implement its fibre strategy through access to wood supplies in the Baltic States and Russia included the acquisition of Sylvester's sawmilling and wood procurement operations in Estonia and sawmill construction in Russia.

Another good example of the way in which Stora Enso is implementing its fibre strategy is the Veracel joint venture plan in Brazil intended to provide low-cost, high quality eucalyptus fibre ideally suited for fine paper production.

### *Asset Restructuring*

In 2002 Stora Enso launched a comprehensive Asset Restructuring Programme to improve customer service by providing cost-competitive, high-quality forest products, with good logistic connections serving customers in the best possible way.

The aim of this programme is to achieve top-quartile asset quality. At the same time Stora Enso recognises the importance of supply discipline. The long-term programme includes asset closures and divestments, as well as machine modernisations and new machines.

Stora Enso is committed to implementing the Asset Restructuring Programme in a responsible way so that capital expenditure stays at or below the level of depreciation over the cycle.

### *Divestment of Non-Core Assets*

Stora Enso has taken the strategic decision to release capital from non-core activities to finance growth of core businesses. Divestment of the Mölndal mill and Finnish and North American forestlands are good examples of the implementation of this strategy during 2002.

By divesting non-core assets Stora Enso is creating a stronger platform for the further development of its core businesses - graphic and office papers, newsprint, packaging boards and wood products.

### *Sales, Marketing and R&D*

During 2002 Stora Enso conducted a customer satisfaction survey that prompted a further improvement in customer focus in the form of a comprehensive customer relationship management project. The project, which began with three paper divisions and already involves more than 300 people, will continue throughout 2003. The purpose of the project is to create and implement a customer relationship management model with defined working principles.

The project targets are to improve profitability, reduce volume volatility, improve supply chain operations, shift from selling products to selling solutions, optimise utilisation of the whole product mix, reduce costs and increase organic growth.

In 2002 Stora Enso spent EUR 91.6 million on research and development, which was 0.7% of net sales. The most important product area for research and development is Consumer Boards, where it supports innovation-based growth strategy. The new InnoCentre, a EUR 4 million investment in industrial-scale converting machinery for raw material development and concept innovation, will be an important tool in developing new converting and packaging technologies and business models. A new concept has already been launched for packaging CDs and DVDs.

Another focus area is product development for digital and other document printing. The product portfolio for different printing technologies has been further developed and complemented. Recent new products are Stora Enso Matt, New StellaPress and CosmoPrint. The main emphasis in product improvement of printing grades has been on brightness, opacity and surface smoothness.

### *Quality Improvement*

Total Quality Management was implemented in nearly all Stora Enso units in 2002 through the Excellence 2005 process. Units throughout the Group, from mills and sales companies to service units and corporate staff functions, are systematically assessed to identify their strengths and areas for improvement, leading to enhanced operations.

Excellence 2005 aligns management practices throughout the Group and creates common understanding. It is a comprehensive approach to business development and continuous improvement through utilisation of Performance Excellence models, best practices sharing, productivity programmes and other quality tools, together with customer satisfaction and other surveys.

### *North America Profit Enhancement Plan*

A Profit Enhancement Plan has been launched in Stora Enso's North American operations to improve the division's results and competitiveness. North America has been suffering from poor market conditions since the end of 2000. To reflect the current market value of the North American assets acquired that year, management decided to take a one-time impairment charge of EUR 1 167 million (USD 1 081 million), which was booked in the third quarter of 2002.

The aims of the Profit Enhancement Plan are to focus increasingly on core assets, to improve competitiveness in coated groundwood and fine papers and to secure competitive pulp for North American operations. The organisation has been streamlined to match the requirements and targets of the North American division. Since the North American acquisition, the workforce has been reduced from 7 294 to 6 156 and will be further reduced by approximately five hundred.

In 2002 North American operations achieved synergies of USD 91 million. The initial synergy target for the year, USD 110 million, was not met because the capacity utilisation rate was lower during the first half of the year and prices were lower than when the target was set in 2000.

### Risk Analysis

Prices for paper and board products have historically been cyclical, reflecting overall economic conditions as well as the development of capacity within the industry; combined with the volatility of raw material prices, mainly for wood, pulp and energy, along with exposure to exchange rates, this affects the profitability of the forest and paper products industry.

The Group has identified a number of potential risks that could severely impact future profitability and development; these are categorised in three major groups:

#### Supply and Demand Risk

- Product prices, raw material and energy costs are cyclical and therefore a period of low product prices or high raw material costs affects profitability.
- Reliance on imported wood may oblige the Group to pay higher prices for key raw materials or change manufacturing operations.
- Reliance on outside suppliers for the majority of energy needs leaves the Group susceptible to changes in energy prices as well as shortage of supply.
- Changes in consumer preferences may have an effect on demand for certain products and thus on profitability.
- Exchange rate fluctuations may have a significant impact on financial results.

#### Investment Risk

- Continued competition in the paper and forest product industry may impact profitability and thus require major capital expenditure.
- Significant capital investments, including future acquisitions, may be necessary to achieve planned growth.
- Planned growth depends in part on achieving successful acquisitions or mergers and failure to do so could have an impact on competitiveness; new acquisitions may also change the risk profile of the Group.
- The value of investments in countries outside Western Europe and North America may be affected by political, economic and legal developments in those countries.

#### External Structural and Legal Risk

- A few significant shareholders may influence or control the direction of the business.
- Stora Enso may face high compliance and clean-up costs under environmental laws and regulations, which would reduce profit margins and earnings.

In order to achieve a more stable business, it is the policy of the Group to mitigate the impact of risk as discussed later.

### Risk Management

#### Business Risk

Group profit is affected by changes in price and volume, though the effect on operating profit depends on the respective product group in question. The table below shows the operating profit sensitivity to a +/-10% change in either price or volume for different product areas.

#### Operating Profit: Impact of Changes +/- 10%

EUR million	Price	Volume
Magazine Paper	300	110
Newsprint	160	70
Fine Paper	300	120
Packaging Boards	300	130
Timber Products	120	30

The price and volume of different cost components also have an impact on profit, the table below showing the most important items relative to total costs and sales.

#### Make-up of Costs and Sales

Cost Items	% of Costs	% of Sales
Variable		
Transport and sales commission	11	10
Logs, pulpwood and recycled fibre	20	18
Chemicals and fillers	11	10
Energy	7	7
Other	14	13
	<b>63</b>	<b>58</b>
Fixed		
Personnel	19	18
Other	8	7
	<b>27</b>	<b>25</b>
Depreciation and amortisation	10	10
<b>Total costs</b>	<b>100</b>	<b>93</b>

The main items are personnel costs and the sourcing of logs, pulpwood and recycled fibre; for example, a 1% change in personnel costs is equal to EUR 20 million and 1% on fibre costs represents EUR 30 million. In order to mitigate the impact of these on earnings, the Group has started to hedge some of its open commodity and energy exposure.

Stora Enso had a positive balance in its pulp trading, the total production of 4.87 million tonnes resulting in net external sales of 90 000 tonnes. More information on resources and supplies is given in the Environment and Resources 2002 Report.

#### Commodity and Energy Price Risk

The Group has implemented an energy risk policy covering energy procurement in order to achieve a consistent hedging process against major exposures. Group companies enter into long-term energy purchase agreements within the framework of the energy risk policy in order to secure supplies, the open price risk being hedged using long-term contracts or financial derivatives.

In fibre derivatives the Group actively supports the development of the market; the Group hedges open price risk in both raw materials and end products.

All financial derivatives used in hedging Group exposure to commodity and energy price risk are accounted for under IAS 39 and, where possible, hedge accounting is applied.

#### Currency Risk

As an international producer and seller of paper and forest products, Stora Enso is exposed to both transaction and translation risks; transaction risk is the danger that earnings could be affected by foreign exchange rate movements whilst translation risk is the Balance Sheet exposure to those movements.

In respect of exposure to exchange rate fluctuations on the value of the net assets comprising shareholders' equity, Group policy is to minimise this risk by funding investments in the same currency as net assets wherever this is possible and economically viable. The Group has therefore hedged exposures in USD, CAD, GBP and SEK under the IAS 39 hedge accounting rules for net investment in foreign entity; the table below shows the EUR equivalent amount of these hedges.

#### Translation Risk and Hedges as at 31 December 2002

EUR million	Euro Area	USA	Sweden	Canada	UK	China	Other	Total
Capital employed	5 804	2 654	1 887	491	24	203	179	11 242
Interest-bearing liabilities	-554	-2 191	-2 041	-	-5	-186	-199	-5 176
Interest-bearing assets	361	532	1 023	36	30	11	128	2 121
Minority interests	-31	-	-3	-	-	-	4	-30
<b>Translation Exposure on Equity</b>	<b>5 580</b>	<b>995</b>	<b>866</b>	<b>527</b>	<b>49</b>	<b>28</b>	<b>112</b>	<b>8 157</b>
Liabilities hedges*	975	-975	-	-	-	-	-	-
Other hedges*								
- EUR/CAD	515	-	-	-515	-	-	-	-
- EUR/GBP	43	-	-	-	-43	-	-	-
- EUR/SEK	328	-	-328	-	-	-	-	-
<b>Translation Exposure after Hedges</b>	<b>7 441</b>	<b>20</b>	<b>538</b>	<b>12</b>	<b>6</b>	<b>28</b>	<b>112</b>	<b>8 157</b>

\* Long-term debt or forward contracts classified as hedges of investment in foreign assets

The hedging policy of Stora Enso in 2002 was to hedge a minimum 25% and maximum 75% of the upcoming 12 months' net exposure in a specific currency, with a benchmark of 50%, though entities reporting in SEK could deviate from this. Due to changes in the geographical distribution of Group business, the transac-

tion hedging policy has been changed from January 2003 so that up to 75% of exposure is hedged according to divisional risk policy, provided these meet hedge accounting criteria. In addition to divisional hedges, Group exposures may be hedged under the authority of senior management.

#### Transaction Risk and Hedges as at 31 December 2002

EUR million	EUR	USD	GBP	SEK	CAD	Other	Total
Sales during 2002	6 600	3 200	1 000	1 100	200	700	12 800
Costs during 2002	-5 500	-2 400	-200	-2 100	-300	-200	-10 700
<b>Net Operating Cash Flow</b>	<b>1 100</b>	<b>800</b>	<b>800</b>	<b>-1 000</b>	<b>-100</b>	<b>500</b>	<b>2 100</b>
<b>IAS 39 hedge-accounted as at 31 Dec 2002</b>							
- EUR/USD	145	-145	-	-	-	-	-
- EUR/GBP	268	-	-268	-	-	-	-
- EUR/SEK	-	-	-	-	-	-	-
- EUR/Other	-5	-	-	-	-	5	-
- USD/SEK	-	-140	-	140	-	-	-
- GBP/SEK	-	-	-183	183	-	-	-
- SEK/Other	-	-	-	-	-	-	-
- USD/CAD	-	-35	-	-	35	-	-
<b>Net Operating Cash Flow after Hedges</b>	<b>1 508</b>	<b>480</b>	<b>349</b>	<b>-677</b>	<b>-65</b>	<b>505</b>	<b>2 100</b>
<b>Not hedge-accounted under IAS as at 31 Dec 2002</b>							
- EUR/USD	17	-17	-	-	-	-	-
- EUR/GBP	16	-	-16	-	-	-	-
- EUR/SEK	-	-	-	-	-	-	-
- EUR/Other	23	-	-	-	-	-23	-
- USD/SEK	-	-78	-	78	-	-	-
- GBP/SEK	-	-	-71	71	-	-	-
- SEK/Other	-	-	-	3	-	-3	-
- USD/CAD	-	-1	-	-	1	-	-
<b>Transaction Exposure, Net</b>	<b>1 564</b>	<b>384</b>	<b>262</b>	<b>-525</b>	<b>-64</b>	<b>479</b>	<b>2 100</b>

#### Funding and Financing Costs

Stora Enso's funding policy states that the average maturity of outstanding loans and committed credit facilities covering short-term borrowings should be at least four years and at the most seven years. The policy further states that the Group must have committed credit facilities to cover all known funding needs, commercial paper borrowings and other uncommitted short-term loans.

In accordance with the funding strategy, the Group diversifies sources of finance by increasing debt capital market issues, thus allowing the Group to take advantage of the longer maturities available in the corporate

bond markets. In December 2002 the Group agreed a five-year risk mitigation facility of EUR 240 million with the European Bank for Reconstruction and Development (EBRD), the facility taking the form of a syndicated multi-purpose loan facility intended to facilitate investments in Russia and Eastern Europe.

In January 2003 Stora Enso Oyj signed a multi-currency revolving credit facility agreement of EUR 2.5 billion, which has a maturity of five years and a margin of 0.425% p.a. over Euribor. The facility is for general corporate purposes including the refinancing of existing EUR 1.6 billion syndicated facilities.

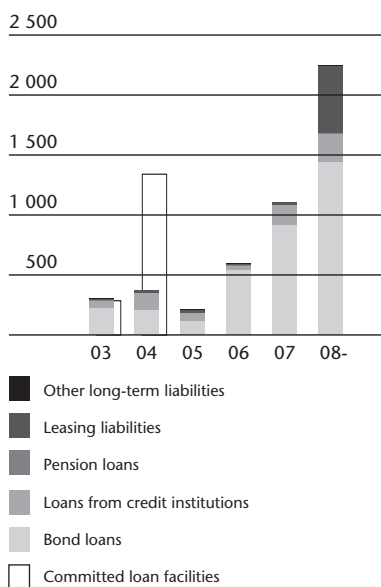
## Funding Structure as at 31 December 2002

Currency million/Maturity	EUR	USD	SEK
Public issues	Eurobond - EUR 850 / 2007 Finnish Serial bond - EUR 247 / 2004	Global bond - USD 750 / 2011	Medium-Term Note - SEK 1 386 / 2003 - SEK 4 000 / 2006
Private placements	EUR 191	USD 601	SEK 2 032
Short-term programmes	Euro Commercial Paper Programme EUR 1 000 Finnish Commercial Paper Programme EUR 750	-	Swedish Commercial Paper Programme SEK 10 000
Committed loan facilities	Syndicated Bank Facility*) DEM 1 500 (EUR 766) / 2004  Syndicated Bank Facility**) EUR 2 500 / 2008	Syndicated Bank Facility*) USD 900 / 2004	-

\*) Multi-currency facility terminated on 17 February 2003

\*\*\*) Multi-currency facility signed on 15 January 2003

### Debt Repayment Schedule as at 31 December 2002 EUR million



Stora Enso considers the maintenance of two investment grade ratings an important target; the present rating and outlook from Moody's and Standard & Poor's are shown in the table below.

### Credit Rating as at 31 December 2002

Agency	Short-term	Long-term	Outlook
Moody's	P-2	Baa1	Stable
Standard & Poor's	A-2/K-1	BBB+	Stable

### Interest Rate Risk

Fluctuations in interest rates affect the interest expense of the Group. As a result of the cyclical nature of the industry, the Group has an interest rate risk policy to synchronise the cost of capital with the return on capital, which is formulated by a benchmark of 12 months duration with a deviation mandate of +/- 6 months. In order to achieve this benchmark, fixed interest rates are converted to floating interest rates using financial derivatives. Since January 2003 the interest risk policy of the Group has changed so that whilst the benchmark duration is unchanged at 12 months, the deviation mandate is now between 3 and 24 months.

### Financial Credit Risk

Credit risk for the Group can be split into two major categories, financial credit risk and customer credit risk.

Financial credit risk is the risk Stora Enso faces in dealings with financial counterparties. In general, financial institutions with credit ratings equal to or better than A1/P1 short-term or AA-/AA3 long-term are accepted as counterparts, all of which are closely monitored, with the total exposure calculated on a regular basis; the Executive Management Group approves financial counterparts having a rating below target.

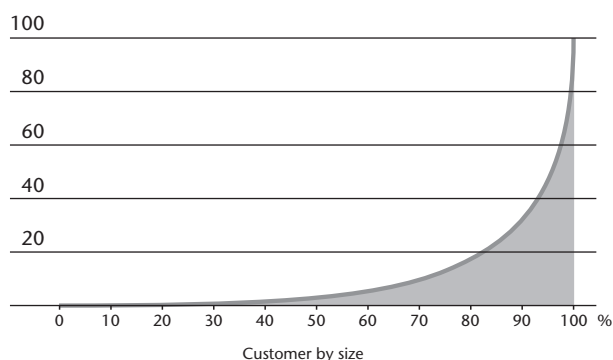
Stora Enso measures financial risk on several levels using the Value-at-Risk (VaR) methodology on a daily basis.

### Customer Credit Risk

Outstanding customer receivables represent a credit risk under which the Group could lose money; accordingly it applies credit control on the receivables portfolio and rates customers on their financial performance. The Group watches larger exposures very carefully because of the impact any default could have on results. As can be seen from the graph below, Receivables per customer, almost 50% of outstanding accounts are from the largest 5% of customers.

#### Receivables per Customer at 31 December 2002

Receivables accumulated, %



Group receivables are mainly from Western Europe, the USA and Canada, accounting for 86% of the total, as compared with sales to these areas of about 82%. Inside Western Europe the largest accounts receivable are from the UK, France, Germany, Finland and Italy, accounting for 65% of the total.

### Supplier Risk

In many areas Stora Enso is dependent on suppliers and their ability to deliver a product at the right time and the right quality. The Group monitors its suppliers and uses, using a wide range in order to avoid situations that might jeopardise production.

Furthermore, the ability of suppliers to meet quality stipulations, environmental compatibility and delivery times is of major importance to the efficiency of production and investment. Accordingly, to ensure compliance with these requirements, evaluation of suppliers, their products, transportation methods and other services is conducted regularly.