

# Corporate Governance

## General Governance Issues

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

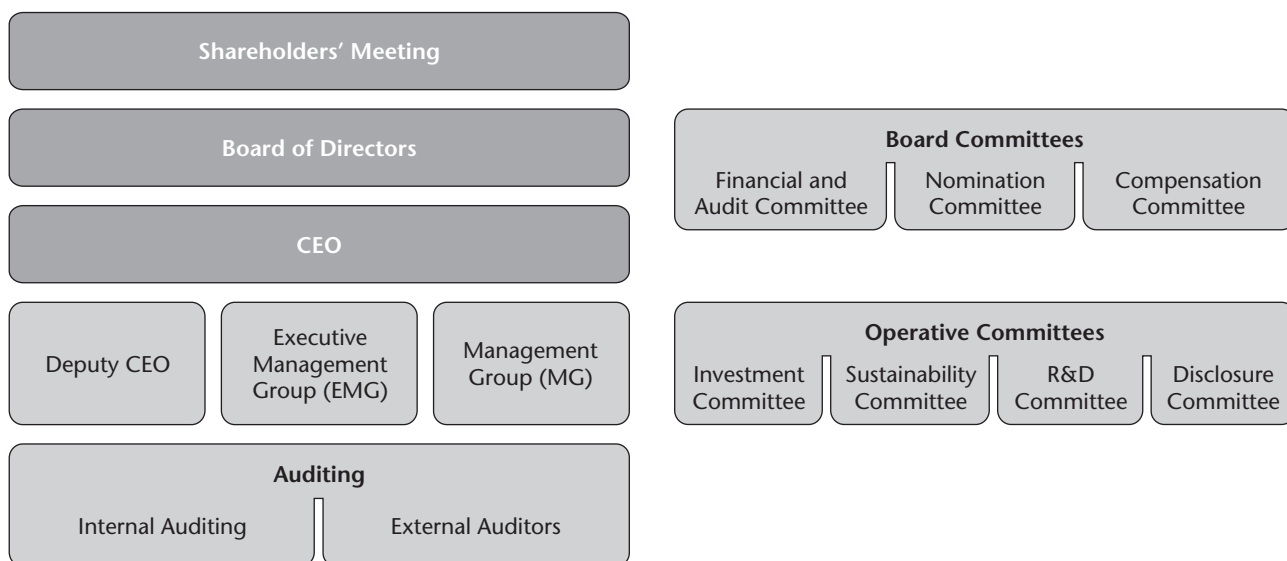
Stora Enso prepares annual and interim financial accounts conforming to International Financial Reporting Standards (IFRS). These reports are published in Finnish, Swedish, English and German. In addition, Stora Enso makes an annual reconciliation with US GAAP (Form 20-F).

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, CEO and Deputy 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 product area and 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 consists of 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 eleven ordinary members: nine non-executive members who are independent and not affiliated with Stora Enso and two executive members (CEO and Deputy 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 Board members and appoints the CEO, Deputy CEO and heads of product areas, divisions and staff functions. The Board approves the 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, the Nomination 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.

### 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
- Matters concerning organisation and personnel
  - 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, Deputy CEO, heads of product areas 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, Nomination Committee and Financial and Audit Committee by the chairmen of the respective committees
  - 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

#### In 2004

The Board of Directors had eleven members and convened eight times. On average directors attended 98% of the meetings.

#### Board Remuneration

EUR	Chairman	Vice Chairman	Board Member
2004	135 000	85 000	60 000
2003	135 000	85 000	60 000
2002	135 000	85 000	60 000

Details of Board Remuneration are shown in Note 6 on page 64.

#### Board Interests as of 31 December 2004

	Series A shares	Series R shares
Claes Dahlbäck, Chairman	2 541	19 529
Krister Ahlström, Vice Chairman	1 500	-
Lee A. Chaden	-	*3 500
Harald Einsmann	-	*4 800
Björn Häggglund, Deputy CEO	7 877	14 618
Jukka Härmälä, CEO	-	6 500
Barbara Kux	-	-
Ilkka Niemi	-	-
Paavo Pitkänen	-	3 800
Jan Sjöqvist	508	1 943
Marcus Wallenberg	2 795	5 367

\* ADRs representing R shares

#### 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 CEO is directly in charge of the following: monitoring and coaching the Paper and Packaging Boards product areas, business strategy (long-range planning and investments), finance (financing, accounting and legal affairs), market services, corporate communications and investor relations, and preparatory work with regard to Board meetings. In addition, he or she supervises decisions regarding key personnel and other important operational matters.

CEO remuneration is shown in Note 6, page 65.

#### Deputy Chief Executive Officer (Deputy CEO)

The Deputy CEO acts as deputy to the CEO. The Deputy CEO is in charge of the following operational matters: monitoring and coaching the Forest Products product area, Asia Pacific and Latin America divisions, corporate support functions (purchasing, R&D, environmental matters), human resources, energy and information technology.

#### Executive Management Group (EMG)

The Executive Management Group is chaired by the CEO. The EMG members are appointed by the Board. Currently, it consists of the Deputy CEO and three product area heads (Paper, Packaging Boards and Forest Products), three divisional heads (Publication Paper, Fine Paper and North America) and the heads of Finance (CFO) and Corporate Support.

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, approximately once a month, and as required.

#### In 2004

The Executive Management Group had 10 members and convened 19 times. Important items on the agenda in 2004 were finalising restructuring of the ownership of forestlands in Sweden and Canada, the divestment of the Finnantara plantation interest in Indonesia and acquisition of 66% ownership of the Polish packaging producer Intercell S.A.

EMG interests as of 31 December 2004 are shown in Note 28, page 99. EMG remuneration is disclosed in Note 6, page 65.

#### Management Group (MG)

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

The MG is chaired by the CEO. The MG consists of members of the EMG and additional members appointed by the CEO.

The MG meets approximately four times a year.

#### In 2004

The Management Group had 25 members and convened four times.

MG interests as of 31 December 2004 are shown in Note 28, page 99.

## Board Committees

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

### 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 twice 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.

#### In 2004

The Financial and Audit Committee comprised five members, Jan Sjöqvist (Chairman), Barbara Kux (from 18 March 2004 onwards), George W. Mead (until 18 March 2004), Ilkka Niemi, Paavo Pitkänen and Marcus Wallenberg, and convened seven times. In April 2004 the Committee appointed Jan Sjöqvist as a Financial Expert in line with the Sarbanes-Oxley Act of 2002. In addition to the regular tasks based on the Committee's charter, during 2004 the Committee performed an evaluation of the Company's key financial targets and reviewed the preparations for the internal control assessment pursuant to Section 404 of the Sarbanes-Oxley Act (see also Disclosure Committee's tasks in 2004).

#### Remuneration

Chairman EUR 10 000 per annum and member EUR 7 000 per annum.

### Summary of Charter

#### Main Tasks

- To support the Board in maintaining the integrity of the Company's financial reporting and the Board's control functions
- Regularly to review the system of internal control, management and reporting of financial risks and the audit process
- 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 twice a year
- Regular participants in the Committee's meetings
  - External Auditors
  - Head of Internal Audit, CFO and Legal Counsel acting as secretary to the Committee
  - Other persons such as SVP Finance, General Counsel and Group Controller 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

### Nomination Committee

The Board has a Nomination Committee that is responsible for giving guidance to the shareholders through the Board regarding the composition of the Board and remuneration of Board members. Further, it prepares a proposal to the Board on the composition and Chairmen of the Board Committees. The Committee is comprised of 3–4 non-executive board members who are independent and not affiliated with the Company. The Nomination Committee meets regularly at least once a year. The Chairman of the Committee presents the proposals of the Nomination Committee to the Board. The tasks and responsibilities of the Nomination Committee are defined in its charter, which is approved by the Board.

#### In 2004

The Nomination Committee comprised four members, Krister Ahlström (Chairman), Claes Dahlbäck, Harald Einsmann and Ilkka Niemi, and convened once. During 2004 the main tasks were to prepare guidance for the Board and Annual General Meeting regarding the election of Board members and their remunerations.

#### Remuneration

Chairman EUR 5 000 per annum and member EUR 3 000 per annum.

#### Summary of Charter

##### Main Tasks

- To give guidance to the shareholders through the Board regarding the composition of the Board and remuneration of Board members
- To prepare a proposal to the Board on the composition and chairmen of the Board Committees

##### Composition

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

##### Meetings and Reporting to the Board

- The Nomination Committee meets regularly at least once a year
- The Chairman of the Committee presents the proposals of the Nomination Committee to the Board

### Compensation Committee

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

#### In 2004

The Compensation Committee comprised four members, Claes Dahlbäck (Chairman), Krister Ahlström, Harald Einsmann and Ilkka Niemi, and convened twice. During 2004 the main tasks were to prepare Stora Enso's top management's salary and other benefit matters, the bonus plan of the CEO and the stock option scheme principles for the year 2004.

#### Remuneration

Chairman EUR 5 000 per annum and member EUR 3 000 per annum.

#### Summary of Charter

##### Main Tasks

- Responsible for recommending, evaluating and approving executive (other than the CEO) nominations and compensations
- To evaluate the performance and compensation of the CEO
- To make recommendations to the Board relating to management compensation issues generally, including equity incentive compensation plans
- The Board approves the compensation of the CEO

##### 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

## Operative Committees

### Investment Committee

The Investment Committee is chaired by the head of Corporate Strategy, Investments and Business Planning. 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 eight times a year and as required.

#### In 2004

The Investment Committee examined several major investment proposals and made recommendations on the allocation of divisional funds for consideration by the EMG. Important items on the agenda in 2004 were rebuilding Suzhou paper machine 1, Stora Enso Packaging's corrugated business expansions in Russia and the North European Transport Supply System. During the first quarter of 2004 the Committee updated the Guidelines for feasibility of large investments, which were prepared and taken into use. In addition, the Committee audited ten major projects started in 2002 and 2003 to gather experience for future use and to secure technology transfer within the Group. The Investment Committee had six members and convened 14 times in 2004.

### Sustainability Committee

The Sustainability Committee is chaired by the Deputy CEO. The Committee's members, representing the relevant staff groups and the product areas, are appointed by the CEO.

The tasks of the Sustainability Committee are: to formulate corporate policy and strategy in environmental and corporate social responsibility matters, to ensure that these policies and strategies are well established and respected throughout the Company, 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 the annual Sustainability Report.

The Sustainability Committee meets regularly as required.

#### In 2004

In April 2004, Stora Enso published its Code of Ethics, which applies to all employees. It is in compliance with the Sarbanes-Oxley Act of 2002. Additional important items on the agenda in 2004 were the Group environmental action plan, Group environmental performance targets, wood traceability, climate change and the Group Sustainability Report 2004. The Sustainability Committee had 13 members and convened twice in 2004.

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

The R&D Committee is chaired by the Deputy CEO. The Committee's members, representing the R&D organisation and the product areas, are appointed by the CEO.

The tasks of the R&D Committee are: to secure a group perspective on R&D in the Company with regard to the relevance of R&D and its quality and efficiency, to initiate R&D policy and strategy at Group level, to monitor Group R&D and to supervise Company-financed R&D undertaken externally. In order to facilitate these tasks, the R&D committee must monitor technology and future-oriented product development.

The R&D Committee meets regularly as required.

#### In 2004

The R&D Committee initiated a review of the ownership and membership policy of external R&D and defined policy objectives and changes. It examined the implementation and success of the new R&D organisation. The R&D Committee had seven members and convened twice in 2004.

### Disclosure Committee

The Disclosure Committee supervises the reliability of the Company financial reporting and disclosure processes. The Committee is chaired by the Group Controller, and the other permanent members are the head of Internal Auditing and the General Counsel. Other members are nominated by the CEO as required. The Disclosure Committee reports to the CEO and Chief Financial Officer (CFO).

The Disclosure Committee meets regularly as required.

#### In 2004

In 2004 a special programme was initiated to ensure compliance with the Sarbanes Oxley Act Section 404, Management Assessment of Internal Controls, a section that requires companies and their external auditors to evaluate the effectiveness of the Company's internal control over financial reporting and to report on material control weaknesses. As a foreign private issuer, Stora Enso is required to include the management assessment in its 2005 Annual Report (20-F) to SEC. The first phases of the programme were completed according to plan by the end of 2004. The Disclosure Committee had three members and convened five 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 Auditing

Stora Enso has a separate internal auditing organisation. It independently appraises the adequacy and effectiveness of systems, internal controls and accounting.

Internal Auditing reports its findings to the management, the external auditors and the Financial and Audit Committee. The head of Internal Auditing reports to the CFO on a functional basis, to the CEO, and has direct access to the Chairman of the Financial and Audit Committee.

Internal Auditing conducts regular audits at major mills, subsidiaries and other Company units.

### Insider Guidelines

The Company complies fully with the insider guidelines of the Helsinki Stock Exchange.

The Company's internal insider guidelines are published and regularly distributed throughout the organisation. The Company expects all of its employees to act as required of an insider. All information that relates to the Company's present and future business operations is expected to be kept strictly confidential.

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

Permanent insiders are members of the Board, the CEO and Deputy CEO, and the auditors. The CEO has decided that other permanent insiders shall be the members of the Management Group and nominated persons in legal, financial, accounting, R&D, communications and investor relations functions.

Persons who participate in the development and preparation of a project, including mergers or acquisitions, are considered project-specific insiders. A separate project-specific insider register is maintained by the Company when considered appropriate by the General Counsel or his or 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).

## Comparison of Stora Enso's Corporate Governance Policy to NYSE's Corporate Governance Rules

Foreign private issuers listed on the New York Stock Exchange must disclose any significant ways in which their corporate governance practices differ from those followed by US domestic companies under the NYSE listing standards.

As a result of a comparison of Stora Enso's corporate governance practices to those requirements of Section 303A of the NYSE listing standards that are currently applicable to US domestic companies, the following significant differences have been identified:

- Under the Finnish Companies Act, compensation plans based on the market price of the Company's shares do not require shareholder approval prior to their introduction. The actual issuance of shares or delivery of shares repurchased pursuant to a share repurchase program or otherwise by the Company is, however, subject to shareholder approval. This also applies to option plans pursuant to which the Company intends to issue new shares or deliver its own shares. Section 303A.08 of the NYSE listing standards requires that all equity-compensation plans, with limited exemptions, are subject to approval by shareholders of the Company. Synthetic options issued under Stora Enso's synthetic option programmes, which entitle the participants to receive a cash payment based on the price of Stora Enso's Series R shares, do not constitute an equity-compensation plan and are not subject to shareholder approval.
- Under the Finnish Companies Act, a general meeting of shareholders of a Finnish company appoints the independent auditor(s) of the Company. Similarly, only a general meeting of shareholders can remove the independent auditor(s) and appoint their successor. Section 303.06 of the NYSE listing standard requires pursuant to Rule 10A-3 of the US Securities Exchange Act of 1934 that the Audit Committee of the Company must be directly responsible for the appointment and retention of the independent auditor of the Company.

## US Capital Markets Rules and Requirements

The Sarbanes-Oxley Act of 2002 was enacted by the US Congress and enforced by SEC to restore trust and confidence in corporate accounting and reporting practices, and further to strengthen investor protection and restore confidence in the US capital markets. The Sarbanes-Oxley Act introduced numerous corporate governance standards for all companies listed in the US. Certain provisions of the Act were effective immediately, while some have been implemented according to SEC's specific implementation guidance.

Stora Enso has earlier conformed the byelaws of the Financial and Audit Committee to the requirements of Sarbanes-Oxley Act, revised its procedures governing its relationship to the Company's independent auditors, established a Disclosure Committee, implemented procedures for handling complaints related to frauds and introduced a Code of Ethics (see page 11).

Already in 2003, Stora Enso introduced procedures that require the respective management of the divisions and subsidiaries to certify the internal controls over financial reporting process. These procedures, and certifications provide a basis on which the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) of Stora Enso certify the consolidated financial statements to the SEC, as required by the Sarbanes-Oxley Act Section 302.