

# Understanding economic impacts

A project carried out during 2004 has assessed ways to measure the economic responsibility of Stora Enso's operations and defined a preliminary set of economic performance indicators.

The focus of the project was on direct economic impacts at the corporate level. Direct and indirect economic impacts on local economies were considered through two pilot cases – **Oulu Mill** and **Wood Supply Finland**.

Stora Enso represents an industry that has traditionally played and still plays a major role in its home countries' economic development. Stora Enso's mills are often located in small communities, where they are major employers, taxpayers and significant business partners for many local enterprises. Understanding the relevance of the economic aspects of sustainability involves looking at local issues, and considering local realities. However, Group-level summaries of direct economic impacts can also give important information on how Stora Enso affects different stakeholders economically, and how the monetary flows behind its business operations are formed.

## Economic impacts on stakeholders

Stora Enso's impact on its stakeholders' economic capacity can be transmitted in various ways.

1. Monetary flows are the most direct pathways for impacts, and provide an indication of the scale of the relationship between Stora Enso and various stakeholders.
2. Stora Enso's operations also have many more intangible impacts,

such as increased knowledge and networking.

3. Other economic performance indicators include measures related to impacts on the economic risk levels of stakeholders.

Stora Enso creates value for its stakeholders in different forms. The value added distribution statement shows how value added by Stora Enso is generated and distributed between various stakeholders.

## Direct economic impacts

### Customers

Stora Enso provides products and services for customers with high expectations. Stora Enso's impacts on customers' economic capacity are the result of the products and services provided by the Group.

Stora Enso serves mainly business-to-business customers through a global sales and marketing network, which has an established presence on six continents with more than 30 sales companies and a number of independent agents. In 2004, Stora Enso's total sales amounted to EUR 12 395.8 million (EUR 12 172.3 million in 2003).

### Suppliers

In 2004 Stora Enso acquired materials and services valued at EUR 6 534.6 million (EUR 6 129.3 million in 2003).

## Employees

Stora Enso creates value for employees through remuneration and other benefits, including social security expenses borne by the company.

Stora Enso's employees participate in a performance-oriented incentive bonus plan based on factors including profitability and the achievement of key business targets set by management. This plan currently covers around 80% of employees, mostly in Europe, and the aim is to gradually take it into use in other countries in accordance with local conditions.

Stora Enso favours permanent work contracts. Approximately 97% of permanent employees have full-time employment contracts.

Restructuring of operations to restore profitability to a level that would support long-term viability resulted personnel reductions in some of Stora Enso's units. The biggest reductions were made in **Wood Supply Russia**, **Wisconsin Rapids mills** and **Kimberly Mill** (see page 35).

Employees' knowledge and well-being are a major part of Stora Enso's intangible value. In 2004, employees received training amounting to an average of 3.4 days per employee. Occupational health costs excluding insurance and compensation costs totalled EUR 10.5 million during 2004.

## Distribution of added value among stakeholders

		2004 EUR million	% of net sales	2003 EUR million	% of net sales
<b>Generation of value added</b>					
Customers	+ Sales	12 395.8	100	12 172.3	100
Suppliers	– Purchases	8 580.4	69	8 202.9	67
	= Value added	3 815.4	31	3 969.4	33
<b>Distribution of value added</b>					
Employees	– Personnel expenses	1 937.3	16	2 297.6	19
Shareholders	– Dividends paid	375.7	3	387.7	3
Creditors	– Net financial items	106.0	1	237.7	2
Public sector	– Taxes	–108.8	–1	67.0	1
	= Retained earnings	1 505.2	12	979.4	8

## Income tax expenses

EUR million	2004
Finnish companies	63.0
Swedish companies	–193.7
German companies	5.1
Other companies	16.8
<b>Total</b>	<b>–108.8</b>

### Shareholders

Shareholders are rewarded through dividends and share prices. Stora Enso's shares are listed in Helsinki, Stockholm and New York. At the end of December 2004, Stora Enso had approximately 76 000 shareholders.

Stora Enso's objective is to pay stable dividends linked to the Group's long-term performance. The objective of this dividend policy is to distribute at least one-half of net profits over a business cycle. Dividends paid in 2004 amounted EUR 375.7 million.

Stora Enso has been recognised as a leading company in sustainability in several investor ratings (see pages 10–11).

### Civil society

In many locations, Stora Enso is the single largest employer. Many units have long traditions of working closely together with their local communities. Such co-operation includes shared infrastructure, regular meetings with unions and community, and providing district heating to the community. Stora Enso also contributed to activities reflecting corporate values through donations and sponsorships.

Investments in environmental improvements amounted to EUR 87 million (see page 19). Stora Enso also carried out environmental remediation work or made a provision for future remediation in 18 sites (see page 15).

In 2004, Stora Enso signed a long-term partnership agreement with UNICEF. Through annual cash contributions and voluntary initiatives Stora Enso intends to contribute a total sum of USD 2.5 million over a five-year period (see pages 40–42).

### Governmental bodies

Net taxes totalled a positive EUR 108.8 million (EUR –67.0 million in 2003), the gain resulting from the release of EUR 240.5 million in deferred tax liabilities on the fair valuation of biological assets relating to the restructuring

of forestland ownership in Sweden and a change in deferred taxes of EUR 20.0 million due to changes in Finnish tax laws. The tax charge excluding these two non-recurring items was EUR 151.7 million, a rate of 28.9% (31.7%).

### Indirect economic impacts

#### Intangibles

Stora Enso provides economic benefits through developing better products, better value and new solutions for customers. By creating partnership initiatives, Stora Enso and its suppliers can both effectively leverage their economic resources. As a global company Stora Enso is in a unique position to take advantage of the R&D resources available in all leading forest industry countries. New research projects are directly linked to Stora Enso's business strategy, and will be evaluated on the basis of the business value they create.

Research and development is carried out at a number of different levels within Stora Enso. Stora Enso has research centres in Finland, Sweden, Germany and the United States, as well as through strong technical organisations at business units. The Group also co-operates at various levels with local and global R&D providers. Most of these research partners are universities or other educational and scientific institutes. Selected suppliers may also be involved in such projects.

In 2004, Stora Enso invested EUR 82.2 million, or 0.7% of total sales, in research and development (EUR 88.8 million in 2003). Research and development spending decreased by 7% compared to 2003.

#### Wood Supply Finland: impacts on the local economy

Stora Enso Wood Supply Finland is responsible for wood procurement in Finland. A total volume of about 20.8 million m<sup>3</sup> of wood solid under bark (sub) was supplied during 2004 to Stora

Enso's mills in Finland. A comparatively small quantity of wood is also sold to other customers outside the Group. About 15.3 million m<sup>3</sup> (sub) of wood was purchased from Finnish forests, most of which are privately owned.

In rural areas, especially in northern and eastern Finland, forestry is an important source of income for many local people. Wood Supply Finland's share of all logging income in these areas can be as high as 25%.

Wood Supply Finland has 768 employees and some 400 partner contractors, including harvesting contractors and local transportation and forestry services. During 2004, Wood Supply Finland's monetary input into local economies in terms of purchases of wood, transportation and harvesting services totalled EUR 647.9 million.

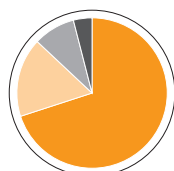
Many harvesting and transportation contractors are small local firms, which have just one or two harvesting machines or trucks. Wood Supply Finland plays a vital role in the survival of these firms as a major customer, or in some cases their only customer. Contracts are usually made for periods of three years, with work amounts specified to allow contractor firms to predict their income levels.

Wood Supply Finland also has joint development programmes with many contractors. One such programme carried out together with harvesting firms during the period 1999–2005 concerned applications of Geographical Information Systems (GIS) incorporated in trucks and harvesters. Wood Supply Finland also provides business education and bookkeeping services for its service suppliers through a web-based service portal.

In 2004, Wood Supply Finland supported partner contractors in development of quality systems which also contributed to their business development and efficiency. As a result most contractors now have a quality system in place. Wood Supply Finland supplier satisfaction is monitored continuously. ●

### Customers

Net sales by market

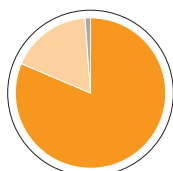


● Europe.....	70%
● North America.....	17%
● Asia Pacific.....	9%
● Other.....	4%

Total EUR 12 395.8 million

### Suppliers

Materials and services by market

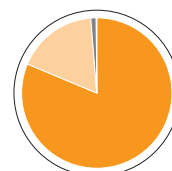


● Europe.....	84%
● North America.....	15%
● Asia Pacific.....	1%

Total EUR 6 534.6 million

### Employees

Personnel expenses by region



● Europe.....	83%
● North America.....	16%
● Asia Pacific.....	1%
● Other.....	0.1%

Total EUR 1 937.3 million