# Financial Report

Stora Enso 2012

# Stora Enso in Brief

Stora Enso is the global rethinker of the paper, biomaterials, wood products and packaging industry. We always rethink the old and expand to the new to offer our customers innovative solutions based on renewable materials.

The Group has some 28 000 employees in more than 35 countries worldwide, and is a publicly traded company listed in Helsinki and Stockholm. Our customers include publishers, printing houses and paper merchants, as well as the packaging, joinery and construction industries.

Our annual production capacity is 5.2 million tonnes of chemical pulp, 12.1 million tonnes of paper and board, 1.3 billion square metres of corrugated packaging and 6.0 million cubic metres of sawn wood products, including 3.0 million cubic metres of value-added products. Our sales in 2012 were EUR 10.8 billion, with an operational EBIT of EUR 618.3 million.

Stora Enso uses and develops its expertise in renewable materials to meet the needs of its customers and many of today's global raw material challenges. Our products provide a climate-friendly alternative to many products made from competing non-renewable materials, and have a smaller carbon footprint. Our solutions based on wood therefore have wide-reaching benefits for us as a business, for people and for the planet. Being responsible – doing good for the people and the planet – underpins our thinking and our approach to every aspect of doing business.

Stora Enso is transforming to a value-creating, growth markets renewable materials company. We will focus more on growth markets in China and Latin America, and fibre-based packaging, plantation-based pulp and competitive paper grades. Fibre-based packaging offers steady long-term growth in most segments and has vast innovation potential, offering sustainable new solutions for our customers. Plantation-based pulp allows us to secure low-cost fibre for production.

# Contents



The Official Financial Statements (in Finnish), an English translation of the Parent Company Financial Statements and the list of principal subsidiaries can be found at www.storaenso.com

# Stora Enso in Capital Markets

## Shares and shareholders

### Shares and voting rights

Stora Enso Oyj's (hereafter "Company" or "Stora Enso") shares are divided into A and R shares. The A and R shares entitle holders to the same dividend but different voting rights. Each A share and each ten R shares carry one vote at a shareholders' meeting. However, each shareholder has at least one vote.

On 31 December 2012 Stora Enso had 177 147 772 A shares and 612 390 727 R shares in issue, of which the Company held no A shares and 918 512 R shares with an accountable par of EUR 1.6 million. The holding represents 0.12% of the Company's share capital and 0.04% of the voting rights. The total number of Stora Enso shares in issue was 789 538 499 and the total number of votes 238 386 844.

### Share listings

Stora Enso shares are listed on NASDAQ OMX Helsinki and NASDAQ OMX Stockholm. Stora Enso shares are quoted in Helsinki in euros (EUR) and in Stockholm in Swedish krona (SEK).

### American Depositary Receipts (ADRs)

Stora Enso has a sponsored Level I American Depositary Receipts (ADR) facility, and following the delisting from NYSE on 28 December 2007, Stora Enso's ADRs are traded on the International OTCQX. The ratio between Stora Enso ADRs and R shares is 1:1, i.e. one ADR represents one Stora Enso R share. Deutsche Bank Trust Company Americas acts as depositary bank for the Stora Enso ADR programme. The trading symbol is SEOAY and the CUSIP is 86210M106.

### Share registers

The Company's shares are entered in the Book-Entry Securities System maintained by Euroclear Finland Oy, which also maintains the official share register of Stora Enso Oyj.

On 31 December 2012, 237 810 538 of the Company's shares were registered in Euroclear Sweden AB and 28 900 312 of the Company's R shares were registered in ADR form in Deutsche Bank Trust Company Americas.

**Distribution by Book-Entry System, 31 December 2012**

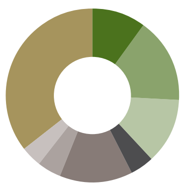
| Number of shares | Total | A shares | R shares |
|---|---|---|---|
| Euroclear Finland Oy | 522 827 649 | 103 185 463 | 419 642 186 |
| Euroclear Sweden AB[1] | 237 810 538 | 73 962 309 | 163 848 229 |
| Deutsche Bank administered ADRs[1] | 28 900 312 | 0 | 28 900 312 |
| **Total** | **789 538 499** | **177 147 772** | **612 390 727** |

[1] Share registered in Euroclear Sweden and ADRs are both nominee registered in Euroclear Finland.

**Ownership Distribution, 31 December 2012**

| | % of shares | % of votes | % of shareholders |
|---|---|---|---|
| Foundation Asset Management | 10.1% | 27.2% | 0.0% |
| Finnish institutions | 15.8% | 21.9% | 2.6% |
| Solidium Oy[1] | 12.3% | 25.1% | 0.0% |
| Finnish private shareholders | 4.5% | 2.7% | 42.5% |
| Swedish institutions | 13.5% | 6.9% | 2.6% |
| Swedish private shareholders | 4.6% | 3.1% | 48.7% |
| ADR holders | 3.7% | 1.2% | 2.1% |
| Under nominee names (non-Finnish/non-Swedish shareholders) | 35.5% | 11.9% | 1.5% |

% of shares held



[1] Entirely owned by the Finnish State.

## Share capital

On 31 December 2012 the Company's fully paid-up share capital entered in the Finnish Trade Register was EUR 1 342.2 million. The current accountable par of each issued share is EUR 1.70.

## Conversion

According to the Articles of Association, holders of Stora Enso A shares may convert these shares into R shares at any time. Conversion of shares is voluntary. During the year 1 000 A shares were converted into R shares. The conversions were recorded in the Finnish Trade Register on 16 January 2012.

### Changes in Share Capital 2006–2012

| | No. of A shares issued | No. of R shares issued | Total no. of shares | Share capital (EUR million) |
|---|---|---|---|---|
| **Stora Enso Oyj, 1 Jan 2006** | **178 159 778** | **634 817 321** | **812 977 099** | **1 382.1** |
| Cancellation of repurchased shares, 31 Mar 2006 | -38 600 | -23 400 000 | -23 438 600 | -39.9 |
| Conversion of A shares into R shares, Dec 2005–Nov 2006 | -18 061 | 18 061 | - | - |
| **Stora Enso Oyj, 31 Dec 2006** | **178 103 117** | **611 435 382** | **789 538 499** | **1 342.2** |
| Conversion of A shares into R shares, Dec 2006–Nov 2007 | -624 084 | 624 084 | - | - |
| **Stora Enso Oyj, 31 Dec 2007** | **177 479 033** | **612 059 466** | **789 538 499** | **1 342.2** |
| Conversion of A shares into R shares, Dec 2007–Nov 2008 | -326 602 | 326 602 | - | - |
| **Stora Enso Oyj, 31 Dec 2008** | **177 152 481** | **612 386 018** | **789 538 499** | **1 342.2** |
| Conversion of A shares into R shares, Dec 2008–Nov 2009 | -2 397 | 2 397 | - | - |
| **Stora Enso Oyj, 31 Dec 2009** | **177 150 084** | **612 388 415** | **789 538 499** | **1 342.2** |
| Conversion of A shares into R shares, Dec 2009–Nov 2010 | -300 | 300 | - | - |
| **Stora Enso Oyj, 31 Dec 2010** | **177 149 784** | **612 388 715** | **789 538 499** | **1 342.2** |
| Conversion of A shares into R shares, Dec 2010–Nov 2011 | -1 012 | 1 012 | - | - |
| **Stora Enso Oyj, 31 Dec 2011** | **177 148 772** | **612 389 727** | **789 538 499** | **1 342.2** |
| Conversion of A shares into R shares, Dec 2011–Nov 2012 | -1 000 | 1 000 | - | - |
| **Stora Enso Oyj, 31 Dec 2012** | **177 147 772** | **612 390 727** | **789 538 499** | **1 342.2** |

For more historical data about the share capital, please visit www.storaenso.com/investors.

# Stora Enso's activities in capital markets during 2012

Stora Enso's Investor Relations activities cover equity and fixed-income markets to ensure full and fair valuation of the Company's shares, continual access to funding sources and stable bond pricing. Investors and analysts are met on a regular basis in Europe, North America, Asia and parts of Latin America. In 2012 the IR team conducted a number of individual and group meetings with equity investors, whilst maintaining regular contact with equity research analysts at investment banks and brokerage firms. There were also meetings with fixed-income analysts and investors. In addition, site visits were arranged for members of the investment community. During the year, senior management and IR personnel also gave presentations at equity and fixed-income investor conferences in Scandinavia, Continental Europe, the United Kingdom and North America. Capital markets day was arranged on 22 March 2012 in Langerbrugge, Belgium.

## Shareholdings of other Group-related bodies at 31 December 2012

E.J. Ljungberg's Education Foundation owned 1 780 540 A shares and 2 336 224 R shares, E.J. Ljungberg's Foundation owned 39 543 A shares and 101 579 R shares, Mr. and Mrs. Ljungberg's Testamentary Foundation owned 5 093 A shares and 13 085 R shares and Bergslaget's Healthcare Foundation owned 626 269 A shares and 1 609 483 R shares.

## Shareholders

At the end of 2012 the Company had approximately 84 521 registered shareholders, including about 44 313 Swedish shareholders and about 1 749 ADR holders. Each nominee register is entered in the share register as one shareholder. Approximately 525 million (67%) of the Company's shares were registered in the name of a nominee.

The free float of shares excluding shareholders with holdings of more than 5% of shares or votes is approximately 570 million shares, which is 72% of the total number of shares issued. The largest single shareholder in the Company is Foundation Asset Management based in Sweden.

### Major Shareholders as of 31 December 2012

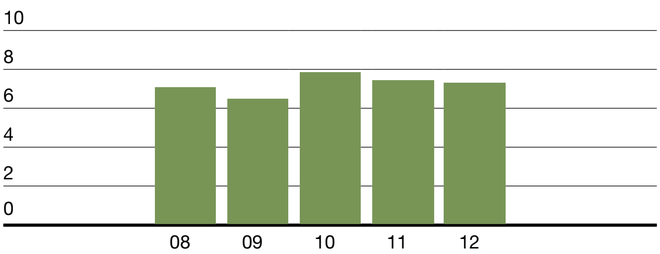
| By voting power | | A shares | R shares | % of shares | % of votes |
|---|---|---|---|---|---|
| 1 | Foundation Asset Management | 63 123 386 | 17 000 000[1] | 10.1% | 27.2% |
| 2 | Solidium Oy[2] | 55 595 937 | 41 483 501 | 12.3% | 25.1% |
| 3 | Social Insurance Institution of Finland | 23 825 086 | 2 775 965 | 3.4% | 10.1% |
| 4 | Varma Mutual Pension Insurance Company | 15 572 117 | 140 874 | 2.0% | 6.5% |
| 5 | Ilmarinen Mutual Pension Insurance Company | 3 492 740 | 10 019 750 | 1.7% | 1.9% |
| 6 | MP-Bolagen i Vetlanda AB (Werner von Seydlitz) | 3 828 000 | 2 937 000 | 0.9% | 1.7% |
| 7 | Nordea Investment Funds | 0 | 29 513 552 | 3.7% | 1.2% |
| 8 | Erik Johan Ljungberg's Education Foundation | 1 780 540 | 2 336 224 | 0.5% | 0.8% |
| 9 | Swedbank Robur Funds | 0 | 9 789 260 | 1.2% | 0.4% |
| 10 | Bergslaget's Healthcare Foundation | 626 269 | 1 609 483 | 0.3% | 0.3% |
| 11 | AMF - Insurance and Funds | 0 | 7 710 700 | 1.0% | 0.3% |
| 12 | The State Pension Fund | 0 | 7 380 000 | 0.9% | 0.3% |
| 13 | Kaleva Mutual Insurance Company | 603 718 | 378 545 | 0.1% | 0.3% |
| 14 | Unionen (Swedish trade union) | 0 | 5 997 200 | 0.8% | 0.3% |
| 15 | Catella Funds | 0 | 5 186 447 | 0.7% | 0.2% |
| | **Total** | **168 447 793** | **144 258 501** | **39.6%[3]** | **76.6%[3]** |
| | Nominee-registered shares | 74 218 799 | 450 474 300 | 66.5%[3] | 50.0%[3] |

[1] As confirmed to Stora Enso.
[2] Entirely owned by the Finnish State.
[3] As some of the shareholdings on the list are nominee registered, the percentage figures do not add up to 100%.

The list has been compiled by the Company on the basis of shareholder information obtained from Euroclear Finland, Euroclear Sweden and a database managed by Deutsche Bank Trust Company Americas. This information includes only directly registered holdings, thus certain holdings (which may be substantial) of shares held in nominee or brokerage accounts cannot be included. The list is therefore incomplete.

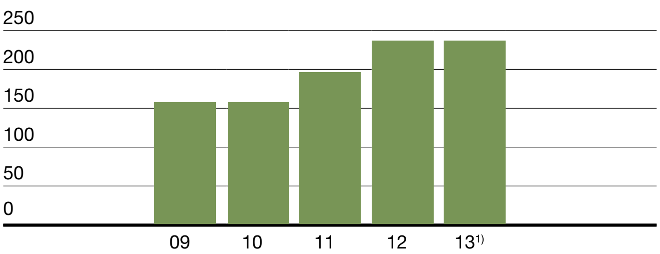
**Equity per Share**

EUR




**Distributed Dividend / Capital Repayment**

EUR million




[1)] Board of Director's proposal to the AGM for the distribution of dividend.

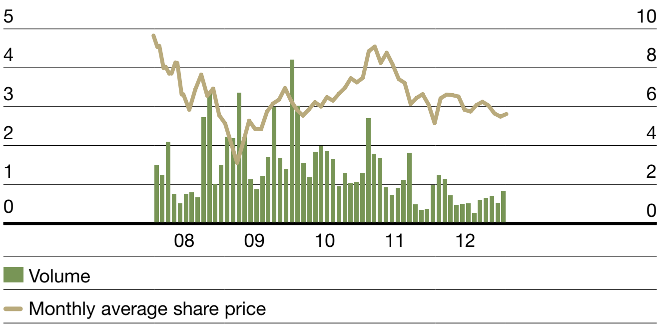
# Share price performance and volumes

## Helsinki

The Stora Enso R (STERV) share price increased during 2012 by 13% (40% decrease in 2011). During the same period the OMX Helsinki Index increased by 8%, the OMX Helsinki Benchmark Index by 12% and the OMX Helsinki Basic Materials Index by 1%.

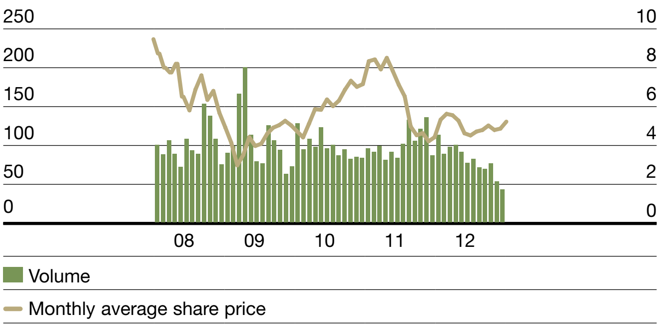
**Helsinki, Stora Enso A**

Number of shares, million Share price (EUR)




**Helsinki, Stora Enso R**

Number of shares, million Share price (EUR)




## Stockholm

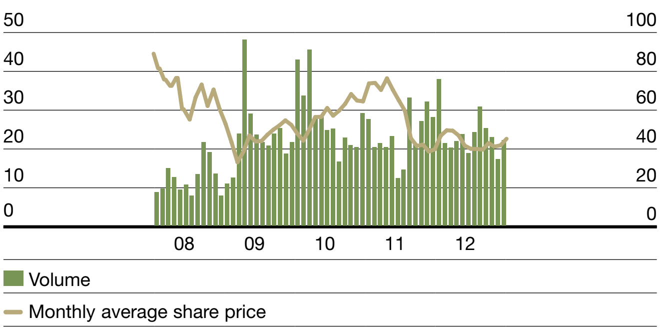
The Stora Enso R (STE R) share price increased during 2012 by 9% (40% decrease in 2011). During the same period the OMX Stockholm 30 Index increased by 12% and the OMX Stockholm Basic Materials Index by 11%.

## OTCQX

On the International OTCQX, the Stora Enso ADR (SEOAY) share price increased during 2012 by 17% (40% decrease in 2011). During the same period the Standard & Poor's 500 Paper Products Index increased by 30%.

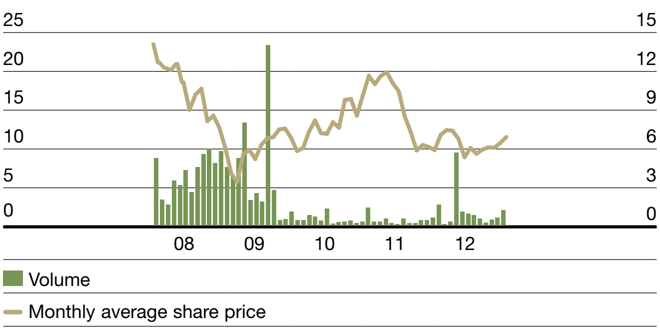
**Stockholm, Stora Enso R**

Number of shares, million Share price (SEK)




**New York, Stora Enso ADR**

Number of shares, million Share price (USD)



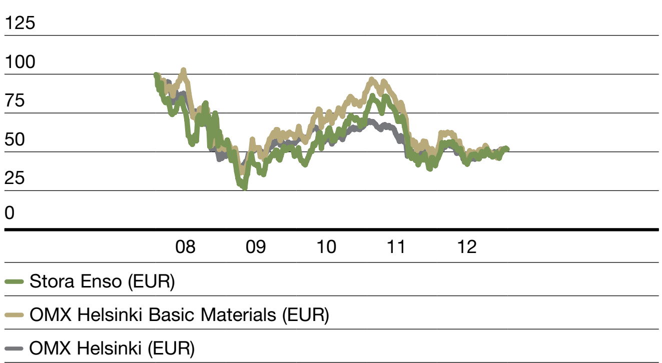
### Share Prices and Volumes 2012

| | | Helsinki, EUR | Stockholm, SEK | OTCQX, USD |
|---|---|---|---|---|
| | A share | 7.15 | 67.50 | - |
| High | R share | 5.95 | 52.40 | 7.49 |
| | A share | 5.10 | 44.63 | - |
| Low | R share | 4.14 | 36.22 | 5.39 |
| | A share | 5.70 | 49.50 | - |
| Closing, 31 Dec 2012 | R share | 5.25 | 44.90 | 6.95 |
| | A share | 13% | 8% | - |
| Change from previous year | R share | 13% | 9% | 17% |
| | A share | 830 992 | 1 278 729 | - |
| Cumulative trading volume, no. of shares | R share | 977 746 138 | 290 123 066 | 24 750 457 |

The volume-weighted average price of R shares over the year was EUR 5.08 in Helsinki (EUR 6.28 in 2011), SEK 44.06 in Stockholm (SEK 55.98 in 2011) and USD 6.48 on the International OTCQX (USD 9.02 in 2011). The total number of R shares traded was 977 746 138 shares (42% of total) in Helsinki, 290 123 066 shares (12% of total) in Stockholm, 24 750 457shares (1% of total) on the International OTCQX and 1 037 143 096 shares in alternative trading venues (45% of total). Total market capitalisation on the OMX Helsinki at the year-end was EUR 4.2 billion.

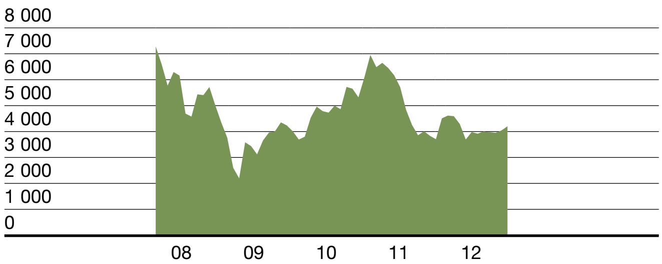
**Stora Enso R Share vs NASDAQ OMX Helsinki Indices**

1.1.2008 = 100



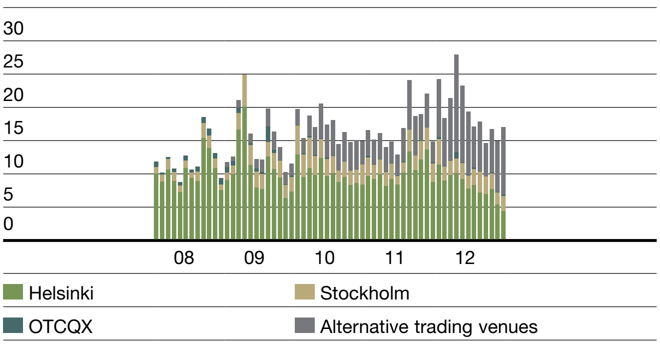

**Market Capitalisation on OMX Helsinki**

EUR million




**Monthly R Shares Trading Volumes**

Number of shares, million




## Alternative trading venues

Stora Enso shares can be traded outside NASDAQ OMX Helsinki and NASDAQ OMX Stockholm, where the shares are listed. During 2012 alternative trading venues such as Boat xoff, BATS Chi-X CXE, BATS Chi-X BXE, Turquoise and Burgundy further increased their market share of monthly turnover in Stora Enso shares. Their proportion of the monthly share trading varied between 34% and 60%. Of the alternative trading venues, Boat xoff had the biggest share of the volume with 39 % on an annual basis (Chi-X 15% in 2011).

## Stora Enso Is Included in at Least the Following Indices

| OMX INDICES | STOXX INDICES | MSCI INDICES | FTSE INDICES | SUSTAINABILITY INDICES |
|---|---|---|---|---|
| • OMX Helsinki | • STOXX Global 1800 | • MSCI Finland | • FTSE RAFI All-World 3000 | • Carbon Disclosure Project |
| • OMX Helsinki 25 | • STOXX Europe 600 | • MSCI Europe | • FTSE RAFI Developed 1000 | • FTSE4GOOD Index |
| • OMX Helsinki Cap | • STOXX Europe Mid 200 | • MSCI World | • FTSE Finland 25 Index | • World's Most Ethical Companies 2012 |
| • OMX Helsinki Benchmark | • STOXX Nordic | | • FTSE4Good | • Forest footprint Disclosure |
| • OMX Helsinki Benchmark Cap | • EURO STOXX | | • FTSE4Good Global | • ECPI Ethical Indices |
| • OMX Helsinki Basic Materials | • EURO STOXX Basic Materials | | | • OMX GES Sustainability Finland index |
| • OMX Helsinki Forestry & Paper | • EURO STOXX Basic Resources | | | |
| • OMX Stockholm | • EURO STOXX Sustainability | | | |
| • OMX Stockholm Basic Materials | | | | |
| • OMX Stockholm Forestry & Paper | | | | |
| • OMX Nordic | | | | |
| • OMX Nordic Large Cap | | | | |

Read more about sustainability indices in Global Responsibility Report 2012.

## Trading Codes and Currencies

| | Helsinki | Stockholm | International OTCQX |
|---|---|---|---|
| A share | STEAV | STE A | - |
| R share | STERV | STE R | - |
| ADRs | - | - | SEOAY |
| Segment | Large Cap | Large Cap | - |
| Sector | Materials | Materials | - |
| Currency | EUR | SEK | USD |
| ISIN, A share | FI0009005953 | FI0009007603 | - |
| ISIN, R share | FI0009005961 | FI0009007611 | - |
| CUSIP | - | - | 86210M106 |
| Reuters | | | STERV.HE |
| Bloomberg | | | STERV FH EQUITY |

### Key Share Data 2003–2012, Total Operations (for Calculations See Page 135)

| According to NASDAQ OMX Helsinki | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|---|---|---|---|---|
| Earnings/share, EUR | 0.61 | 0.43 | 0.97 | -1.12 | -0.85 | -0.27 | 0.74 | -0.14 | 0.91 | 0.16 |
| – diluted, EUR | 0.61 | 0.43 | 0.97 | -1.12 | -0.85 | -0.27 | 0.74 | -0.14 | 0.91 | 0.17 |
| – excl. NRI, EUR | 0.33 | 0.63 | 0.79 | 0.19 | 0.19 | 0.88 | 0.55 | 0.28 | 0.25 | 0.24 |
| Cash earnings/share, EUR | 1.28 | 1.16 | 1.33 | 0.35 | 1.01 | 2.11 | 2.34 | 1.65 | 2.04 | 1.57 |
| – diluted, EUR | 1.28 | 1.16 | 1.33 | 0.35 | 1.01 | 2.11 | 2.34 | 1.65 | 2.04 | 1.57 |
| – excl. NRI, EUR | 1.07 | 1.33 | 1.46 | 0.92 | 1.05 | 2.35 | 1.97 | 1.70 | 1.67 | 1.63 |
| Equity/share, EUR | 7.33 | 7.45 | 7.87 | 6.50 | 7.09 | 9.63 | 10.04 | 9.31 | 9.29 | 9.49 |
| Dividend and distribution/share, EUR | 0.30[1] | 0.30 | 0.25 | 0.20 | 0.20 | 0.45 | 0.45 | 0.45 | 0.45 | 0.45 |
| Payout ratio, excl. NRI, % | 91 | 48 | 32 | 105 | 105 | 51 | 82 | 161 | 180 | 188 |
| Dividend and distribution yield, % | | | | | | | | | | |
| A share | 5.3 | 6.0 | 3.2 | 3.4 | 3.6 | 4.4 | 3.7 | 3.9 | 3.9 | 4.1 |
| R share | 5.7 | 6.5 | 3.3 | 4.1 | 3.6 | 4.4 | 3.8 | 3.9 | 4.0 | 4.2 |
| Price/earnings ratio (P/E), excl. NRI | | | | | | | | | | |
| A share | 17.3 | 8.0 | 10.0 | 30.8 | 29.6 | 11.6 | 22.4 | 40.9 | 46.2 | 44.0 |
| R share | 15.9 | 7.3 | 9.7 | 25.7 | 29.1 | 11.6 | 21.8 | 40.9 | 45.1 | 42.7 |
| Share prices for the period, EUR | | | | | | | | | | |
| A share | | | | | | | | | | |
| – closing price | 5.70 | 5.03 | 7.90 | 5.85 | 5.63 | 10.19 | 12.30 | 11.46 | 11.55 | 11.00 |
| – average price | 6.15 | 7.73 | 6.47 | 5.03 | 7.48 | 12.71 | 12.10 | 11.05 | 11.11 | 10.63 |
| – high | 7.15 | 9.80 | 7.94 | 7.55 | 11.20 | 14.65 | 13.80 | 12.19 | 12.15 | 12.48 |
| – low | 5.10 | 4.70 | 5.30 | 2.82 | 5.16 | 9.80 | 10.16 | 9.51 | 10.00 | 8.25 |
| R share | | | | | | | | | | |
| – closing price | 5.25 | 4.63 | 7.69 | 4.88 | 5.52 | 10.24 | 12.00 | 11.44 | 11.27 | 10.68 |
| – average price | 5.08 | 6.28 | 6.03 | 4.27 | 7.32 | 12.67 | 11.89 | 10.98 | 10.89 | 10.23 |
| – high | 5.95 | 8.99 | 7.79 | 6.16 | 10.44 | 14.56 | 13.58 | 12.17 | 12.11 | 12.42 |
| – low | 4.14 | 3.73 | 4.15 | 2.65 | 5.10 | 9.99 | 10.01 | 10.05 | 9.60 | 8.30 |
| Market capitalisation at year-end, EUR million | | | | | | | | | | |
| A share | 1 010 | 891 | 1 400 | 1 036 | 997 | 1 809 | 2 191 | 2 042 | 2 068 | 1 993 |
| R share | 3 212 | 2 835 | 4 709 | 2 989 | 3 381 | 6 267 | 7 337 | 7 262 | 7 418 | 7 295 |
| Total | 4 222 | 3 726 | 6 109 | 4 025 | 4 378 | 8 076 | 9 528 | 9 304 | 9 486 | 9 288 |
| Number of shares at the end of period, (thousands) | | | | | | | | | | |
| A share | 177 148 | 177 149 | 177 150 | 177 150 | 177 152 | 177 479 | 178 103 | 178 160 | 179 049 | 181 211 |
| R share | 612 391 | 612 389 | 612 389 | 612 388 | 612 386 | 612 059 | 611 435 | 634 817 | 658 195 | 683 051 |
| Total | 789 538 | 789 538 | 789 538 | 789 538 | 789 538 | 789 538 | 789 538 | 812 977 | 837 244 | 864 262 |
| Trading volume, (thousands) | | | | | | | | | | |
| A share | 831 | 1 402 | 1 887 | 2 536 | 1 712 | 5 409 | 1 403 | 6 290 | 1 203 | 2 937 |
| % of total number of A shares | 0.5 | 0.8 | 1.1 | 1.4 | 1.0 | 3.1 | 0.8 | 3.5 | 0.7 | 1.6 |
| R share | 977 746 | 1 237 898 | 1 194 245 | 1 297 668 | 1 231 605 | 1 263 658 | 1 165 656 | 888 511 | 880 002 | 780 890 |
| % of total number of R shares | 159.7 | 202.1 | 195.0 | 211.9 | 201.1 | 206.5 | 190.6 | 104.0 | 133.7 | 114.3 |
| Average number of shares (thousands) | | | | | | | | | | |
| basic | 788 620 | 788 620 | 788 619 | 788 620 | 788 620 | 788 599 | 788 578 | 798 687 | 829 935 | 851 128 |
| diluted | 788 620 | 788 620 | 788 619 | 788 620 | 788 620 | 788 751 | 788 863 | 799 218 | 830 546 | 851 326 |

[1] Board of Directors' proposal to the AGM for distribution of dividend.
NRI = non-recurring items

Read more about:
Incentive programmes in Note 22
Management interests in Note 7

# Debt Investors

## Funding strategy

Stora Enso's funding strategy is based on the Group's financial targets. Stora Enso should have access to sufficient competitively priced funding at any time to be able to pursue its strategy and achieve its financial targets. In order to achieve this, the emphasis is on capital markets funding. Stora Enso strives to build confidence and a track record with fixed-income investors by being informative and transparent.

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

## Rating strategy

The present rating and outlook from Moody's, Standard & Poor's (S&P) and Fitch are shown below.

**Ratings as at 31 December 2012**

| Rating Agency | Long/Short-Term Rating | Valid from |
|---|---|---|
| Standard & Poor's | BB (negative)/B | 25 October 2012 |
| Moody's | Ba2 (negative)/NP | 24 October 2012 |
| Fitch | BB- (stable)/B | 26 July 2012 (unsolicited) |

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

**Debt Structure as at 31 December 2012**

| | EUR | USD | SEK |
|---|---|---|---|
| Public issues | EUR 395 million 2014 | USD 508 million 2016 | SEK 500 million 2015 |
| | EUR 390 million 2016 | USD 300 million 2036 | SEK 1 400 million 2015 |
| | EUR 500 million 2018 | | SEK 2 400 million 2015 |
| | EUR 500 million 2019 | | SEK 500 million 2017 |
| | | | SEK 2 200 million 2017 |
| Private placements | EUR 125 million | USD 50 million | |
| Financial institutions | EUR 505 million | USD 368 million | |
| Pension commitment loans | EUR 174 million | | |
| Commercial paper issues | EUR 190 million | | |

| **Debt Programmes and Credit Facilities** | | | |
|---|---|---|---|
| Commercial Paper Programmes | Finnish Commercial Paper Programme EUR 750 million | | Swedish Commercial Paper Programme SEK 10 000 million |
| EMTN (Euro Medium Term Note Programme) | EUR 4 000 million | | |
| Back-up facility | EUR 700 million Syndicated Multi-Currency Revolving Credit Facility 2015[1] | | |

[1] Undrawn committed credit facility EUR 700 million.

Read more about:
Debt and loans in Note 27
www.storaenso.com/debt

# Corporate Governance in Stora Enso

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

Stora Enso's Corporate Governance complies with the Finnish Corporate Governance Code (the "Code") issued by the Securities Market Association that entered into force on 1 October 2010. The Code is available at the internet website www.cgfinland.fi. Stora Enso's Corporate Governance also complies with the Swedish Corporate Governance Code ("Swedish Code") which entered into force on 1 February 2010 (and applicable to Stora Enso as foreign company from 1 January 2011) with the exception of the deviations listed in Stora Enso's full Corporate Governance Report. The deviations are due to differences between the Swedish and Finnish legislation, governance code rules and practices, and in these cases Stora Enso follows the practice in its domicile. The Swedish Code is issued by the Swedish Corporate Governance Board and is available at the internet website www.corporategovernanceboard.se.

The Corporate Governance Report is available as a PDF document at www.storaenso.com/investors/governance.

## General governance issues

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

Stora Enso prepares Consolidated Financial Statements and Interim Reviews conforming to International Financial Reporting Standards (IFRS), and Annual Reports, which are published in Finnish and English. The financial section of the Annual Report is also translated into German, and the Interim Reviews into Swedish, in addition to these languages.

The Company's head office is in Helsinki, Finland. It also has head office functions in Stockholm, Sweden.

Stora Enso has one statutory auditor elected 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.

**Governance Bodies**

**Shareholders' meeting**
Nomination Board

**Board of Directors**
Financial and Audit Committee | Remuneration Committee

**CEO**
Compliance Board
Group Executive Team (GET)

**Auditing**
Internal Audit | External Auditor

**Insider guidelines**

## Objectives and composition of governance bodies

The shareholders exercise their ownership rights through the shareholders' meetings. The decision-making bodies with responsibility for managing the Company are the Board and the CEO. The Group Executive Team (GET) supports the CEO in managing the Company.

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

## Shareholders' meetings

The Annual General Meeting of shareholders (AGM) is held annually to present detailed information about the Company's performance and to deal with matters such as adopting the annual accounts, setting the dividend (or distribution of funds) and its payment, and appointing members of the Board of Directors and the Auditor.

Shareholders may exercise their voting rights and take part in the decision-making process of Stora Enso by attending shareholders' meetings. Shareholders also have the right to ask questions of the Company's management and Board of Directors at shareholders' meetings. Major decisions are taken by the shareholders at Annual or Extraordinary General Meetings. At a shareholders' meeting, each A share and each ten R shares carry one vote.

The Board of Directors convenes a shareholders' meeting by publishing a notice to the meeting in at least two Finnish and two Swedish newspapers, not more than three (3) months before the last day for advance notice of attendance mentioned in the notice to the meeting and not less than twenty-one (21) days before the date of the meeting. Other regulatory notices to the shareholders are delivered in the same way.

The Annual General Meeting is held by the end of June in Helsinki, Finland. The Finnish Companies Act and Stora Enso's Articles of Association specify in detail that the following matters have to be dealt with at the AGM:

- presentation and adoption of the annual accounts
- presentation of the report on operations and the Auditor's report
- use of the profit and distribution of funds to the shareholders
- resolution concerning discharge of the members of the Board and the Chief Executive Officer from liability
- decision on the number and the remuneration of the members of the Board and the Auditor
- election of the members of the Board and the Auditor
- any other matters notified separately in the notice to the meeting.

In addition, the AGM shall take decisions on matters proposed by the Board of Directors. A shareholder may also propose items for inclusion in the agenda provided that they are within the authority of the shareholders' meeting and the Board of Directors was asked to include the items in the agenda at least four weeks before the publication of the notice to the meeting.

An Extraordinary General Meeting of Shareholders is convened when considered necessary by the Board of Directors or when requested in writing by an Auditor or shareholders together holding a minimum of one tenth of all the shares to discuss a specified matter which they have indicated.

**In 2012**

Stora Enso's AGM was held on 24 April 2012 in Helsinki, Finland. Of the issued and outstanding A and R shares, 91.3% and 44.9% (91.3% and 40.1% in 2011), respectively, and of the aggregate shares and votes, 55.3% and 79.3% (51.6% and 78.1% in 2011), respectively, were represented at the meeting. Majority of the Board members and the GET members as well as the company's auditor were present at the meeting. In 2012, no Extraordinary General Meetings of Shareholders were convened.

## Nomination Board appointed by the shareholders

Shareholders at the AGM appoint a Nomination Board to prepare proposals concerning:

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

The Nomination Board comprises four members:

- the Chairman of the Board;
- the Vice Chairman of the Board;
- two members appointed annually by the two largest shareholders (one each) as of 30 September.

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

The Nomination Board has a charter that defines its tasks and responsibilities in more detail. The Nomination Board approves the charter in its first meeting.

**In 2012**

The Nomination Board appointed by the AGM in 2012 comprised four members: the Chairman of the Board (Gunnar Brock), the Vice Chairman of the Board (Juha Rantanen) and two other members appointed by the two largest shareholders, namely Pekka Ala-Pietilä[1)] (Solidium) and Claes Dahlbäck[1)] (Foundation Asset Management).

Pekka Ala-Pietilä was elected Chairman of the Nomination Board at its first meeting. The main tasks of the Nomination Board were to prepare the proposals for the AGM in 2013 concerning Board members and their remuneration. The Nomination Board appointed by the AGM in 2012 convened 5 times (24 October 2012–31 January 2013).

The Nomination Board proposes in its proposal for the AGM in 2013 that of the current members of the Board of Directors, Gunnar Brock, Hock Goh, Birgitta Kantola, Mikael Mäkinen, Juha Rantanen, Hans Stråberg, Matti Vuoria and Marcus Wallenberg, shall be re-elected until the end of the following AGM and that Elisabeth Fleuriot and Anne Brunila be elected as new members of the Board of Directors for the same term of office. The Nomination Board also presents a proposal to keep the Board remuneration on current level and that the AGM in 2013 appoint a Nomination Board to present proposals for Board membership and remunerations to the AGM in 2014.

**Remuneration**

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

1) Pekka Ala-Pietilä is Chairman of the Board of Solidium and Claes Dahlbäck a Senior Advisor of Foundation Asset Management.

## Board of Directors (Board)

Stora Enso is managed by the Board according to International Corporate Governance Principles (based on OECD Principles of Corporate Governance 2004).

According to the Company's Articles of Association, the Board comprises six to eleven ordinary members appointed by the shareholders at the AGM for a one-year term. It is the policy of the Company that the majority of the directors shall be independent of the Company. The independence is evaluated in accordance with recommendation 15 of the Code. In addition, at least two of the directors comprising this majority shall be independent of significant shareholders of the Company. A significant shareholder is a shareholder that holds more than 10% of all the Company's shares or the votes carried by all the shares or a shareholder that has the right or the obligation to purchase 10% of already issued shares.

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).

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 the Company's 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, Chief Financial Officer (CFO) and other GET members. The Board approves the main organisational structure of the Company.

The Board reviews and determines the remuneration of the CEO, which is described in the Annual Report and the Company's website. The Board evaluates its performance annually. The Board also reviews the corporate governance policy annually and amends it when required.

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

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

**In 2012**

The Board had eight members at the end of 2012, all of them independent of the Company. The Board members are also independent of significant shareholders of the Company with the exception of Marcus Wallenberg (member of the investment committee of Foundation Asset Management).

The Board members nominated at the AGM in 2012 were Gunnar Brock (Chairman), Juha Rantanen (Vice Chairman), Hock Goh, Birgitta Kantola, Mikael Mäkinen, Hans Stråberg, Matti Vuoria and Marcus Wallenberg. The Board convened 10 times during the year.

For detailed information about the Board members and their share ownerships, see **pages 18–19.**

**Board Remuneration**

| EUR | 2012[1] | 2011[1] |
|---|---|---|
| Chairman | 170 000 | 135 000 |
| Vice Chairman | 100 000 | 85 000 |
| Board Member | 70 000 | 60 000 |

[1] 40 % of the Board remuneration in 2012 was paid in Stora Enso R shares purchased from the market and distributed as follows: Chairman 14 044 (6 860) R shares, Vice Chairman 8 262 (4 320) R shares and members 5 783 (3 050) R shares each.

Board interests as of 31 December 2012 are presented in Note 7.

## Board committees

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

### Financial and Audit Committee

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

## Working order of the Board

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

### Board meetings

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

### Information

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

### Matters to be handled at Board meetings

- matters specified by the Finnish Companies Act;
- approval of business strategy;
- organisational and personnel matters
  - decisions concerning the basic top management organisation;
  - decisions concerning the composition of the Group Executive Team;
  - remuneration of the CEO;
  - appointment and dismissal of the CEO and approval of heads of Business Areas and other senior officers belonging to the GET;
  - appointment of Board committees (including chairmen);
- economic and financial matters
  - review of annual budget;
  - approval of loans and guarantees, excluding intra-Group loans and guarantees;
  - report of share repurchases, if any;
  - approval of Group Risk Management Policy according to Financial and Audit Committee's proposal;
- investment matters
  - approval of investment policy of the Group;
  - approval of major investments;
  - approval of major divestments;
- other matters
  - report of the CEO on the Group's operations;
  - reports of the Remuneration Committee and Financial and Audit Committee by the chairmen of the respective committees. The Nomination Board's recommendations and proposals shall be reported to the Board by the Chairman of the Board.
  - approval and regular review of Corporate Governance and the charters of the Board committees;
  - annual self-assessment of Board work and performance;
- other matters submitted by a member of the Board or the CEO.

The Committee comprises three to five Board members, who are independent and not affiliated with the Company. At least one Committee member must be a financial expert who has significant knowledge and experience in accounting and accounting principles applicable to the Company. The Financial and Audit Committee meets regularly, at least four times a year. The Committee members meet the external and internal auditors regularly without the management being present. 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 remuneration solely based on their role as directors. The remuneration is decided upon by the shareholders at an AGM.

**In 2012**

The Financial and Audit Committee comprised three members in 2012: Birgitta Kantola (Chairwoman), Gunnar Brock and Juha Rantanen. The Committee convened six times.

In addition to the regular tasks based on the Committee's charter, during 2012 the Committee focused on the effectiveness of internal controls over financial reporting and overseeing the progress of implementation of enterprise risk management.

**Remuneration**

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

The summary of Financial and Audit Committee Charter is presented at www.storaenso.com/investors/governance

### Remuneration Committee

The Board has a Remuneration Committee which is responsible for recommending, evaluating and approving executive nominations and remunerations (including reviewing and recommending the CEO's remuneration), evaluating the performance of the CEO, and making recommendations to the Board relating to management remuneration issues generally, including equity incentive remuneration plans. There is a Remuneration Committee representative present at the AGM to answer questions relating to the management remuneration. The Board appoints the CEO and approves his/her remuneration.

The Committee comprises three to four Board members, who are independent and not affiliated with the Company. The Remuneration Committee meets regularly, at least once a year. The Chairman of the Remuneration Committee presents a report on each Remuneration Committee meeting to the Board. The tasks and responsibilities of the Remuneration Committee are defined in its charter, which is approved by the Board.

### Attendance in Board and Committee meetings in 2012

| | | Financial and Audit Committee | | Remuneration Committee | |
|---|---|---|---|---|---|
| **Board member** | **Board attendance** | **Chairman/Member** | **Attendance** | **Chairman/Member** | **Attendance** |
| Gunnar Brock | 10/10 | x | 6/6 | x | 3/3 |
| Juha Rantanen | 10/10 | x | 6/6 | | |
| Hock Goh[1)] | 6/6 | | | | |
| Birgitta Kantola | 10/10 | x | 6/6 | | |
| Mikael Mäkinen | 10/10 | | | | |
| Hans Stråberg | 10/10 | | | x | 3/3 |
| Matti Vuoria | 10/10 | | | x | 3/3 |
| Marcus Wallenberg | 10/10 | | | | |

1) Hock Goh was appointed at the 2012 Annual General Meeting.

**In 2012**

The Remuneration Committee comprised three members in 2012. The members were Gunnar Brock (Chairman), Hans Stråberg and Matti Vuoria. The Committee convened three times.

During 2012, the main tasks were to recommend, evaluate and approve executive nominations and remunerations, and to make recommendations to the Board relating to management remuneration in general.

**Remuneration**

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

The summary of Remuneration Committee Charter is presented at www.storaenso.com/investors/governance

# Management of the Company

## 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 principles comply with the law and that financial matters are handled in a reliable manner.

The Board approves the main organisation, including the functions reporting to the CEO. In 2012 the CEO was directly in charge of the following functions, which also reported to him:

- Business Areas (Printing and Reading, Biomaterials, Building and Living and Renewable Packaging)
- CFO (responsible for IT, Accounting & Controlling, Treasury, Risk Management, Taxes, Internal Audit, Investor Relations, Strategy, Corporate Finance and M&A)
- Global People and Organisation
- Global Ethics and Compliance, General Counsel
- Global Identity
- R&D and Capital Investments

The CEO is also responsible for preparatory work with regard to Board meetings. In addition, he/she supervises decisions regarding key personnel and other important operational matters.

The CFO acts as deputy to the CEO as defined in the Finnish Companies Act.

Detailed information about the CEO is presented on page 20 and information about CEO remuneration in Note 7.

## Group Executive Team (GET)

The GET is chaired by the CEO. The GET members are appointed by the CEO and approved by the Board. Currently, the nine GET members are the CEO, the CFO, and the heads of the four Business Areas, Global People and Organisation, Global Ethics and Compliance (who is also General Counsel) and Global Identity.

The GET's tasks and responsibilities are: review of key day-to-day operations and operational decisions, key leadership issues, investment proposals, planning and follow-up, control of mergers, acquisitions and divestments, preparation of strategic guidelines, sustainability policies, allocation of resources and preparatory work with regard to Board meetings.

The GET meets regularly every month, and as required.

**In 2012**

The GET had nine members at the end of 2012. The GET convened 14 times during the year, six times in person and eight times over the telephone. Important items on the agenda in 2012 were implementation of the new Business Area structure, safety issues, diversity and quality of the talent bench, company purpose and values, reviewing the operations of the Group, planning and following up on investment and other strategic projects, and preparatory work for Board meetings.

## Business Areas and other functions

In 2012, Stora Enso rethought the organisation structure. New Business Areas were implemented and a stronger division between Business Areas, Group functions and service functions created. Independence of Business Areas was increased, especially in respect of organising the Business Area resources and manning as well as deciding on usage of services offered by the service functions.

Group functions are corporate related functions that do not offer services to the Business Areas, whereas service functions offer services to the Business Areas. Each Business Area shall have independence in deciding whether and to what extent it utilises the offered services.

The investment planning is carried out by the Business Areas and, in case certain monetary thresholds are exceeded, reviewed by the Investment Working Group, consisting Group and Business Area representatives. The CEO and GET are responsible for the investment allocations and decisions, as well as proposals to the Board of Directors.

The GET is responsible for all policy issues relating to sustainability. Everyday sustainability issues are handled by Stora Enso's Global Responsibility function together with the Global Ethics and Compliance function, Global People and Organisation function and Business Areas, which are responsible for the operational management of responsibility issues. The role of the Global Responsibility function is to develop, support and follow up on Stora Enso's Global Responsibility strategy, and ensure that sustainability policies, guidelines and targets are duly realised.

The Company has established user boards for certain cross-functional service functions (Purchasing, Logistics, Business Information Services, Accounting Services, Energy and parts of Wood Supply). These user boards consist of representatives of the Business Areas using these services. The user boards supervise and steer the operations of the service functions in question.

The Company has also established proper disclosure policies and controls, and process for quarterly and other ongoing reporting.

## Other supervisory bodies and norms

**Auditors**

The AGM annually elects one auditor 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 shall be an authorised public accounting firm, which appoints the responsible auditor.

**In 2012**

Deloitte & Touche Oy (Deloitte) has been acting as Stora Enso's auditor since 2008. At the 2012 Annual General Meeting Deloitte was re-elected as auditor for a term of office expiring at the end of the Annual General Meeting in 2013.

Detailed information about auditor's fees is presented in Note 5.

**Internal Audit**

Stora Enso has a separate internal auditing organisation. The role of Internal Audit is to provide independent, objective assurance and consulting services that add value and improve the Group's operations. Internal Audit helps the Group to accomplish its objectives by providing a systematic, disciplined approach to evaluate and improve the effectiveness of internal control, risk management and governance processes.

To ensure the independence of the Internal Audit department, its personnel report to the head of Internal Audit, who reports functionally to the Financial and Audit Committee and CEO, and administratively to the CFO. The head of Internal Audit is appointed by the CEO. The CEO shall seek approval of the appointment from the Financial and Audit Committee.

Internal Audit conducts regular audits at mills, subsidiaries and other Company units, implementing an annual audit plan approved by the Financial and Audit Committee, including any special tasks or projects requested by management and the Financial and Audit Committee.

**Compliance Board**

Stora Enso Compliance Board supervises and monitors legal and regulatory compliance related policies, implementation and maintenance of processes and tools regarding the same, as well as concrete compliance issues and cases in the field of business practices. The Compliance Board consists of General Counsel (chairperson), CEO, CFO, Head of Global People and Organisation, Head of Internal Audit and the Legal Counsel dedicated to compliance matters. The Compliance Board shall convene at least four times every year.

**Insider guidelines**

The Company complies with the insider guidelines of NASDAQ OMX Helsinki. The Company's internal insider guidelines are published and distributed throughout the Group.

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

**Public insiders**

According to the Finnish Securities Markets Act, public insiders or persons subject to disclosure requirement are persons in the following positions: members of the Board of Directors, the CEO and the CFO, and person(s) with main responsibility for the audit. The CEO has decided that other public insiders are the members of the Group Executive Team (GET), Assistant General Counsel and the head of Investor Relations.

The list of public insiders is approved by the CEO. The Company's public insider register is publicly available and is maintained by Euroclear Finland Oy.

**Company-specific insiders**

Company-specific insiders are persons who regularly receive inside information or who could have an opportunity to gain access to insider information through the nature of their work and who are not in the public insider register. Company-specific insiders are the Business Area Management Teams, the personal assistants/secretaries to the members of the GET and Business Area Management Teams and the representatives of the employees. The heads and all members of the Investor Relations and Global Communications teams are also regarded as company-specific insiders, as well as the heads and certain team members of Treasury, Group Accounting and Controlling and Legal Services.

The company-specific insider register is a non-public permanent register. Persons included in a company-specific insider register are informed either by letter or by e-mail. The list of persons included in the continuously updated company-specific insider register is approved by the General Counsel.

**Project-specific insider register**

When a large project such as a merger or acquisition is under preparation, persons who are involved in that project and receive inside information are also considered insiders. In these cases a separate project-specific insider register is established. The General Counsel or the Assistant General Counsel will decide case-by-case in which projects such a register shall be established.

A project-specific insider register is a temporary register. Persons included in a project-specific insider register are informed either by letter or by e-mail.

**Closed period**

During the closed period insiders are not allowed to trade in the Company's securities. The period starts when the reporting period ends and lasts until the results are announced. The dates are published in the financial calendar at www.storaenso.com/investors.

## Internal control and risk management related to financial reporting

**Internal control over financial reporting**

In the Company, the system of internal control and risk management related to financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with applicable laws and regulations, generally accepted accounting principles and other requirements for listed companies.

The system of internal control in the Stora Enso Group is based upon the framework issued by the Committee of Sponsoring Organisations (COSO) and comprises five principal components of internal control: the control environment, risk assessment, control activities, information and communication, and monitoring.

**Control environment**

The control environment sets the tone of the organisation, influencing the control consciousness of employees. It is the foundation for all other components of internal control, providing discipline and structure.

The Board has the overall responsibility for setting up an effective system of internal control and risk management. The roles and responsibilities of governance bodies are defined in the Corporate Governance policy of the Company.

Responsibility for maintaining an effective control environment and operating the system for risk management and internal control of financial reporting is delegated to the CEO. The internal control in the Company is based on the Group's structure, whereby the Group's operations are organised into four Business Areas and various support and service functions. Group functions prepare and the CEO and GET issue corporate guidelines that stipulate responsibilities and authority, and constitute the control environment for specific areas, such as finance, accounting, investments, purchasing and sales. The Company has proper processes to ensure the reliability of the Company's financial reporting and disclosure processes.

The Company has a formal code of conduct and other policies regarding acceptable business practice, conflicts of interest and expected standards of ethical and moral behavior. These policies are translated into relevant languages. Standard requirements have been defined for internal control over financial reporting and self-assessment is used as a tool to facilitate the evaluation of controls in individual business units and support functions.

The management expects all employees to maintain high moral and ethical standards and those expectations are communicated to employees through internal communication channels and are reinforced through training. The management philosophy is based on principles whereby performance targets do not test an employee's ability to adhere to ethical values.

**Risk assessment**

Risk assessment is the identification and analysis of relevant risks to the achievement of objectives, forming a basis for determining how the risks should be managed. In the Company the major risks affecting internal control over financial reporting have been identified in a baseline risk assessment and at different levels, such as Group, Business Area, unit or function and process. The assessment of risk includes risks related to fraud and irregularities, as well as the risk of loss or misappropriation of assets. Information on development of essential risk areas and executed and planned activities in these areas are communicated regularly to the Financial and Audit Committee.

**Control activities**

Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks related to the achievement of the organisation's objectives, and they are aimed at preventing, detecting and correcting errors and irregularities. Control activities, which fulfil the control objectives identified in risk assessment, occur throughout the organisation, at all levels and in all functions. Besides the general computer controls, they include a range of activities such as approvals, authorisations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

**Information and communication**

The Company's information and communication channels support completeness and correctness of financial reporting, for example, by making internal instructions and policies regarding accounting and financial reporting widely known and accessible to all employees concerned, as well as through regular updates and briefing documents regarding changes in accounting policies and reporting and disclosure requirements. Subsidiaries and operations units make regular financial and management reports to the management, including analysis and comments on financial performance and risks. The Board receives financial reports monthly. The Financial and Audit Committee has established a procedure for anonymous reporting of violations related to accounting, internal controls and auditing matters.

**Monitoring**

The Company's financial performance is reviewed at each Board meeting. The Financial and Audit Committee handles and the Board reviews all Interim Reviews before they are released by the CEO. The annual financial statements and the Report of the Board of Directors are reviewed by the Financial and Audit Committee and approved by the Board. The effectiveness of the process for assessing risks and the execution of control activities are monitored continuously at various levels. Monitoring involves both formal and informal procedures applied by management and processes owners, including reviews of results in comparison with budgets and plans, analytical procedures, and key performance indicators.

The Company has a separate internal auditing organisation. The role, responsibilities and organisation of Internal Audit are described under Other Supervisory Bodies and Norms.

**Compliance**

Stora Enso is committed to take responsibility for its actions, to comply with all applicable laws and regulations wherever it operates and to create and maintain ethical relationships with its customers, suppliers and other stakeholders. Stora Enso Code of Conduct sets forth the company game rules. In 2011, the company established Business Practice Policy, which further sets out Stora Enso's approach to ethical business practices and describes the processes to report on violations thereof. Each and every employee, no matter who they are or where they are, is expected to comply with the Code of Conduct and Business Practice Policy. Continual training is organised in order to make sure that the same are part of the everyday decision making and activities at Stora Enso.

In order to further enhance the supervision and monitoring of legal and regulatory compliance related policies and issues, Stora Enso in 2012 established the Compliance Board, which is described in more detail on page 16.

# Board of Directors




## Gunnar Brock

**Chairman of Stora Enso's Board of Directors since March 2010. Member of Stora Enso's Board of Directors since March 2005. Independent of the Company and the significant shareholders.**
Born 1950. M.Sc. (Econ.). Swedish citizen. Member of Stora Enso's Financial and Audit Committee and Chairman of the Remuneration Committee since March 2010. Member of the Nomination Board. Chairman of the Board of Mölnlycke Healthcare AB and Rolling Optics. Member of the Board of Total SA, Investor AB, SOS-Children's Villages, Sweden, Stockholm School of Economics, GreenGold Capital AB, Stena AB and Syngenta International AG. Member of the Royal Swedish Academy of Engineering Sciences (IVA). President and CEO of Atlas Copco Group 2002–2009, President of Thule International 2001–2002, President and CEO of Tetra Pak Group 1994–2000, President and CEO of Alfa Laval 1992–1994.
Owns 39 362 R shares in Stora Enso.

## Juha Rantanen

**Vice Chairman of Stora Enso's Board of Directors since March 2010. Member of Stora Enso's Board of Directors since March 2008. Independent of the Company and the significant shareholders.**
Born 1952. M.Sc. (Econ.). Finnish citizen. Member of Stora Enso's Financial and Audit Committee since March 2010. Member of the Nomination Board. Member of the Board of Crisis Management Initiative – the Ahtisaari Centre, Suomen Messut – Finnexpo, Onvest Oy, Stalatube Oy and Yara International ASA. President and CEO of Outokumpu Group 2005–2011, President and CEO of Ahlstrom Corporation 1998–2004, CEO of Borealis A/S 1994–1997.
Owns 25 338 R shares in Stora Enso.

## Hock Goh

**Member of Stora Enso's Board of Directors since April 2012. Independent of the Company and the significant shareholders.**
Born in 1955. Bachelor's degree (honours) in Mechanical Engineering. Singaporean citizen. Chairman of the Board of Advent Energy Limited since 2007, an Australian oil and gas exploration company. Operating Partner of Baird Capital Partners Asia 2005–2012. Has held several senior management positions in Schlumberger Limited, the leading oilfield services provider, in 1995–2005. Chairman of the Board of MEC Resources. Member of the Board of Santos Australia, BPH Energy, KS Distribution Pte Ltd and THISS Technologies Pte Ltd.
Owns 5 783 R shares in Stora Enso.

## Birgitta Kantola

**Member of Stora Enso's Board of Directors since March 2005. Independent of the Company and the significant shareholders.**
Born 1948. LL.M., Econ.Dr.H.C. Finnish citizen. Member of Stora Enso's Financial and Audit Committee since March 2005 and Chair of the Committee since April 2009. Member of the Board of Skandinaviska Enskilda Banken AB (publ) and Nobina AB. Vice President and CFO of International Finance Corporation (World Bank Group), Washington D.C. 1995–2000. Executive Vice President of Nordic Investment Bank 1991–1995.
Owns 21 988 R shares in Stora Enso.


Birgitta Kantola


Hock Goh
Mikael Mäkinen


Marcus Wallenberg

## Mikael Mäkinen

**Member of Stora Enso's Board of Directors since March 2010. Independent of the Company and the significant shareholders.**
Born 1956. M.Sc. (Eng.). Finnish citizen. Chairman of the International Chamber of Commerce Finland. Member of the Board of Lemminkäinen Corporation and East Office of Finnish Industries Oy. Deputy Member of the Federation of Finnish Technology Industries. President and CEO of Cargotec Oyj from 2006 until 8 October 2012, President of Cargotec Marine from 8 October 2012 onwards. Chairman of the Board of Moving Cargo. Group Vice President, Ship Power, Wärtsilä 1999–2006. Managing Director of Wärtsilä NSD Singapore 1997–1998, Vice President, Marine, Wärtsilä SACM Diesel 1992–1997.
Owns 12 676 R shares in Stora Enso.

## Hans Stråberg

**Member of Stora Enso's Board of Directors since April 2009. Independent of the Company and the significant shareholders.**
Born 1957. M.Sc. (Eng.). Swedish citizen. Member of Stora Enso's Remuneration Committee since March 2010. Chairman of Roxtec AB, Orchid First Holding AB and CTEK First Holding AB. Member of the Board of Investor AB and N Holding AB. President and CEO of AB Electrolux 2002–2010. Several management positions at Electrolux in Sweden and the USA 1983–2002.
Owns 15 561 R shares in Stora Enso.

## Matti Vuoria

**Member of Stora Enso's Board of Directors since March 2005. Independent of the Company and the significant shareholders.**
Born 1951. LL.M., B.Sc. (Arts). Finnish citizen. Member of Stora Enso's Remuneration Committee since March 2005. President and CEO of Varma Mutual Pension Insurance Company. Vice Chairman of the Board of Sampo plc and Wärtsila Oyj Abp. Executive Vice President of Varma Mutual Pension Insurance Company from January 2004 to May 2004. Executive Chairman of the Board of Fortum Corporation 1998–2003. Secretary General of Ministry of Trade and Industry 1992–1997.
Owns 27 488 R shares in Stora Enso.

## Marcus Wallenberg

**Member of Stora Enso's Board of Directors since December 1998. Independent of the Company.**[1)]
Born 1956. B.Sc. (Foreign Service). Swedish citizen. Member of Stora's Board of Directors from March 1998 until the merger with Enso in 1998. Chairman of the Board of Skandinaviska Enskilda Banken AB, AB Electrolux, Saab AB and LKAB. Member of the Board of AstraZeneca PLC, Investor AB, Knut and Alice Wallenberg Foundation and Temasek Holdings Limited. President and CEO of Investor AB 1999–2005. Vice President of Stora Feldmühle AG, a Stora subsidiary, 1990–1993.
Owns 2 541 A and 23 203 R shares in Stora Enso.

The independence is evaluated in accordance with Recommendation 15 of the Finnish Corporate Governance Code. The full recommendation can be found at www.cgfinland.fi. A significant shareholder according to the Recommendation is a shareholder that holds more than 10% of all company shares or the votes carried by all the shares or a shareholder that has the right or the obligation to purchase 10% of already issued shares.

1) **Marcus Wallenberg** (member of the investment committee of Foundation Asset Management) is not independent of significant shareholders of the Company. The Board has evaluated that Marcus Wallenberg is independent of the Company despite his 14-year membership of the Board of Directors.

# Group Executive Team (GET)




## Jouko Karvinen

**Chief Executive Officer (CEO) of Stora Enso**

Born 1957. M.Sc. (Eng.). Finnish citizen. Joined Stora Enso in 2007. President and CEO, Philips Medical Systems, USA, from 2002 to 2006. Prior to that employed by ABB Group Limited from 1987 serving in several international positions. Head of the Automation Technology Products Division and member of the ABB Executive Committee from 2000 to 2002. Member of the Board of the Finnish Forest Industries Federation, Confederation of European Paper Industries (CEPI), member of the Business Co-Operation Council and Co-Chairman of the Forest Industry Task Force, EU-Russia Industrialists' Round Table (IRT). Member of the Board of Nokia Corporation, SKF Group and Montes del Plata.
Owns 237 009 R shares and has 157 646 (2006–2007) options/synthetic options in Stora Enso.

## Karl-Henrik Sundström

**Chief Financial Officer (CFO) of Stora Enso**

Born 1960. B.Sc. (Business Studies). Swedish citizen. Member of the GET since August 2012. Joined the company in August 2012. CFO of NXP Semiconductors from 2008 to 2012. Prior to that CFO and several managerial positions in Ericsson. Member of the Board of Swedbank and Clavister AB.
Does not own any Stora Enso shares nor options.

## Juan Carlos Bueno

**Executive Vice President, Biomaterials, Head of Latin America**

Born 1968. M.Sc. (Industrial Eng.). Colombian citizen. Member of the GET since April 2011. Joined the company in 2011. EVP, Stora Enso Latin America until 16 January 2012. Vice President of DuPont Agricultural Products in Brazil 2006–2011. Prior to that several finance, sales, marketing and general business management positions in DuPont in other Latin American countries, United States, Europe, Middle East and Africa. Chairman of the Board of Montes del Plata. Member of the Board of Veracel.
Does not own any Stora Enso shares nor options.

## Lars Häggström

**Executive Vice President, Global People and Organisation**

Born 1968. B.Sc. (HR Development and Labour Relations). Swedish citizen. Member of the GET since October 2010. Joined the company in 2010. Head of Group HR at Nordea Bank AB from 2008 to 2010. Prior to that several managerial HR positions in Gambro AB, AstraZeneca and Telia, and various HR positions at Eli Lilly & Co. from 1995 to 2002, including Director of Human Resources in Latin America.
Owns 1 045 R shares in Stora Enso.

## Hannu Kasurinen

**Executive Vice President, Building and Living**

Born 1963. M.Sc. (Econ.). Finnish citizen. Member of the GET since August 2008. Joined the company in 1993. Has held several managerial positions in Financial Services, Group Treasury, Risk Management, Strategy and Business Development, Profit Improvement, Speciality Papers, Group Strategy and Wood Products. Member of the Board of Directors of several Stora Enso subsidiaries. Chairman of the Board of European Organisation for the Sawmill Industry (EOS) and member of the Board of Suominen Corporation.
Owns 50 693 R shares and has 18 750 (2006–2007) options/synthetic options in Stora Enso.




## Per Lyrvall

**Executive Vice President, Global Ethics and Compliance, General Counsel**

Born 1959. Swedish Master of Laws Degree. Swedish citizen. Member of the GET since March 2012. Joined the company as Legal Counsel in 1994. General Counsel since 2008. Prior to joining Stora Enso legal positions at Swedish Courts, law firms and Assi Domän. Member of the Board of Bergvik Skog AB.

Owns 19 205 R shares and 5 000 (2006–2007) options/synthetic options in Stora Enso.

## Mats Nordlander

**Executive Vice President, Renewable Packaging, Regional Head of Asia Pacific and Country Manager Sweden**

Born 1961. Dipl.Eng. Swedish citizen. Member of the GET since September 2007. Joined the company in 1994. Has held several managerial positions in Papyrus, Fine Paper, Consumer Board and Market Services. Member of the supervisory board of Swedish Industrial Board of Axcel private equity fund. Vice Chairman of the Board of Swedish Forest Industries Federation. Member of the Board of Industrikraft.

Owns 67 002 R shares and has 15 000 (2006–2007) options/synthetic options in Stora Enso.

## Lauri Peltola

**Executive Vice President, Global Identity**

Born 1963. CCJ. Finnish citizen. Member of the GET since March 2012. Joined the company in 2009. Prior to that Head of Group Identity and Communications of Nordea, Communications Director for Metsäliitto Group and Global Media Relations Director for Nokia.

Owns 26 255 R shares in Stora Enso.

## Juha Vanhainen

**Executive Vice President, Printing and Reading, Country Manager Finland**

Born 1961. M.Sc. (Eng.). Finnish citizen. Member of the GET since September 2007. Joined the company in 1990. EVP, Publication Paper until 16 January 2012. Has held several managerial positions in Office Paper, Fine Paper, and Newsprint and Book Paper. Member of the Board of Directors of several subsidiaries. Chairman of the Board of Finnish Forest Industries Federation. Deputy Chairman of the Board of Pohjolan Voima Oy. Member of the Supervisory Board of Ilmarinen Mutual Pension Insurance Company, member of the Body of Representatives of the Confederation of Finnish Industries (EK), member of the Board of Confederation of European Paper Industries (CEPI) and Efora Oy.

Owns 58 314 R shares and has 18 750 (2006–2007) options/synthetic options in Stora Enso.

**Hannu Alalauri,** Executive Vice President, Fine Paper and **Bernd Rettig,** Executive Vice President, R&D, Technology, Energy, Logistics and Investments, were members of the Group Executive Team until the reorganisation of the company on 19 March 2012.

**Markus Rauramo,** Chief Financial Officer (CFO) was a member of the Group Executive Team until his resignation on 31 July 2012.

Options/synthetic options were issued annually between 1999 and 2007.

# Report of the Board of Directors

## Markets and deliveries

Demand for cartonboard was slightly weaker than a year ago in Western Europe and North America, but stronger in Asia and Eastern Europe. Economic uncertainty reduced demand, especially in Western Europe.

The uncertain economic environment slowed the growth in demand for corrugated board slightly in Eastern Europe and Asia but demand remained strong. Demand for corrugated board in Western Europe was slightly weaker than a year ago.

Structural erosion of paper demand persisted in Europe and North America in 2012. The deterioration in demand was aggravated by macroeconomic weakness. Paper demand in 2012 was 6% less than in 2011 in Europe and 5% less in North America, but 2% greater than in 2011 in Asia. Overall, global paper consumption declined by 2% in 2012.

The year was marked by oversupply in several pulp grades due to weak demand for paper and increasing instability in the European market. Pulp demand in general was once again supported by China, even though its economy grew more slowly than in recent years.

Pulp prices in US dollars experienced heavy price pressure during the first half of 2012, followed by a small recovery in the second half, although the price increases announced have been almost entirely offset by weakening of the dollar against the euro, putting a lot of pressure on high-cost producers in Canada and the Nordic countries.

There were no significant increases in pulp production capacity in 2012, but this should change significantly from 2013 up to 2016.

Global demand for sawnwood has been recovering slowly from the cyclical trough of 2009, strengthening by a further 1% in 2012. Market conditions have varied considerably from region to region. Following the more robust years of 2010 and 2011, construction markets generally stagnated in 2012 in most European countries, with total demand for sawnwood declining by 3% year-on-year. Chinese sawnwood consumption also showed sign of weakness in 2012 after several years of double-digit growth, as the housing market cooled off. Demand remained clearly more robust in North America, Japan, the Middle East and North Africa. North American sawnwood consumption continued to recover, increasing by a further 5% in 2012, supported by a dynamic market for new housing, but it was still 40% below the peak in the mid 2000s.

### Deliveries by Segment

| | Deliveries | | | Curtailments | |
|---|---|---|---|---|---|
| **1 000 tonnes** | **2012** | **2011** | **Change %** | **2012** | **2011** |
| Printing and Reading | 7 130 | 7 219 | -1.2 | 722 | 762 |
| Renewable Packaging | 3 138 | 3 111 | 0.9 | 225 | 251 |
| **Total Paper and Board Deliveries** | **10 268** | **10 330** | **-0.6** | **947** | **1 013** |
| | | | | | |
| Wood Products, 1 000 $m^3$ | 4 750 | 5 072 | -6.3 | | |
| Market pulp, 1 000 t | 1 058 | 1 130 | -6.4 | | |
| Corrugated Board, million $m^2$ | 1 097 | 1 018 | 7.8 | | |

### Estimated Consumption of Paper, Board and Sawn Softwood in 2012

| Tonnes, million | Europe | North America | Asia and Oceania |
|---|---|---|---|
| Consumer board | 9.1 | 12.7 | 23.5 |
| Corrugated board (billion m²) | 49 | 52 | 124 |
| Newsprint | 8.3 | 4.9 | 13.2 |
| Uncoated magazine paper | 3.5 | 1.7 | 0.4 |
| Coated magazine paper | 6.0 | 3.6 | 3.9 |
| Uncoated fine paper | 7.8 | 8.8 | 19.3 |
| Coated fine paper | 6.0 | 4.2 | 13.0 |
| Chemical market pulp | 17.8 | 7.3 | 24.1 |
| Sawn softwood (million m³) | 85.1 | 76.7 | n/a |

Source: Stora Enso, CEPIFINE, PPPC, RISI.

The Group's paper and board deliveries totalled 10 268 000 tonnes in 2012, which is 62 000 tonnes less than in the previous year mainly because demand weakened in all paper grades. Market pulp deliveries decreased by 72 000 tonnes to 1 058 000 tonnes. Deliveries of wood products decreased by 322 000 m³ to 4 750 000 m³ mainly due to closure of Kopparfors Sawmill in 2011.

## Financial results – Segments

Stora Enso decided to renew its Business Area and Reporting Segment structures in early 2012 based on the different markets and customers they serve. The Group combined the paper reporting segments Newsprint and Book Paper, Magazine Paper and Fine Paper into one Business Area and Reporting Segment called Printing and Reading. The reporting segments Consumer Board and Industrial Packaging, together with the plantations in Guangxi in China, formed the Renewable Packaging Business Area and Reporting Segment. A new Business Area and Reporting Segment called Biomaterials was established comprising mainly the Company's joint-venture pulp mills, stand-alone pulp mills and tree plantations. The Wood Products Business Area was renamed as Building and Living.

The aim of the renewed Business Area structure is to increase the Group's competitiveness, flexibility, speed and accountability, and to minimise interdependences between the businesses to ensure that Stora Enso has the ability and agility to seize opportunities arising from the changes in the global economy.

### Printing and Reading

| EUR million | 2012 | 2011 |
|---|---|---|
| Sales | 4 839.3 | 5 022.0 |
| Operational EBITDA[1] | 488.6 | 547.6 |
| Operational EBIT[2] | 218.1 | 285.3 |
| % of sales | 4.5 | 5.7 |
| Operating capital 31 December | 2 961.8 | 3 071.4 |
| Operational ROOC, %[3] | 7.2 | 9.2 |
| Average number of employees | 8 783 | 9 052 |
| Deliveries, 1 000 t | 7 130 | 7 219 |
| Production, 1 000 t | 7 210 | 7 228 |

[1] Operating profit/loss excluding fixed asset depreciation and impairment, share of results of equity accounted investments, NRI and fair valuations.
[2] Operational EBIT comprises the operating profit excluding NRI and fair valuations of the segments and Stora Enso's share of the operating profit excluding NRI and fair valuations of its equity accounted investments (EAI).
[3] Operational ROOC = 100% x Operational EBIT/Average operating capital.

Printing and Reading sales were EUR 4 839 million, down 4% on 2011, mainly due to lower average prices in local currencies for all paper grades.

Operational EBIT was EUR 67 million lower than in the previous year at EUR 218 million as lower variable costs, especially for pulp and paper for recycling, could not compensate for lower sales prices in local currencies and slightly lower volumes. Fixed costs were similar to a year ago.

### Biomaterials

| EUR million | 2012 | 2011 |
|---|---|---|
| Sales | 1 012.4 | 1 092.0 |
| Operational EBITDA[1] | 98.9 | 200.4 |
| Operational EBIT[2] | 82.1 | 169.2 |
| % of sales | 8.1 | 15.5 |
| Operating capital 31 December | 1 412.6 | 1 454.7 |
| Operational ROOC, %[3] | 5.7 | 12.0 |
| Average number of employees | 839 | 810 |
| Pulp deliveries, 1000 t | 1 836 | 1 851 |

[1] Operating profit/loss excluding fixed asset depreciation and impairment, share of results of equity accounted investments, NRI and fair valuations.
[2] Operational EBIT comprises the operating profit excluding NRI and fair valuations of the segments and Stora Enso's share of the operating profit excluding NRI and fair valuations of its equity accounted investments (EAI).
[3] Operational ROOC = 100% x Operational EBIT/Average operating capital.

Biomaterials sales were EUR 1 012 million, down 7% on 2011 due to significantly lower pulp prices in local currencies for all grades. Sales volumes were similar to a year ago.

Operational EBIT decreased by EUR 87 million to EUR 82 million due to lower sales prices in local currencies and higher variable costs. Result of the equity accounted investment, Montes del Plata, was clearly lower than a year ago due to higher pre-operative expenses. Fixed costs were clearly lower than a year ago.

## Building and Living

| EUR million | 2012 | 2011 |
|---|---|---|
| Sales | 1 684.4 | 1 671.1 |
| Operational EBITDA[1)] | 58.8 | 102.3 |
| Operational EBIT[2)] | 28.8 | 62.8 |
| % of sales | 1.7 | 3.8 |
| Operating capital 31 December | 565.2 | 562.1 |
| Operational ROOC, %[3)] | 5.1 | 10.9 |
| Average number of employees | 4 385 | 4 484 |
| Deliveries, 1 000 $m^3$ | 4 592 | 4 920 |

1) Operating profit/loss excluding fixed asset depreciation and impairment, share of results of equity accounted investments, NRI and fair valuations.
2) Operational EBIT comprises the operating profit excluding NRI and fair valuations of the segments and Stora Enso's share of the operating profit excluding NRI and fair valuations of its equity accounted investments (EAI).
3) Operational ROOC = 100% x Operational EBIT/Average operating capital.

Building and Living sales were EUR 1 684 million, up 1% on 2011 mainly due to the improved sales mix and structural changes. Volumes were 7% lower.

Operational EBIT at EUR 29 million was EUR 34 million lower than in the previous year, mainly due to higher raw material costs caused by challenging sawlog availability.

## Renewable Packaging

| EUR million | 2012 | 2011 |
|---|---|---|
| Sales | 3 216.0 | 3 194.6 |
| Operational EBITDA[1)] | 474.6 | 495.8 |
| Operational EBIT[2)] | 271.9 | 301.3 |
| % of sales | 8.5 | 9.4 |
| Operating capital 31 December | 2 350.1 | 2 152.9 |
| Operational ROOC, %[3)] | 12.1 | 14.2 |
| Average number of employees | 12 292 | 10 888 |
| Paper and board deliveries, 1 000 t | 3 138 | 3 111 |
| Paper and board production, 1 000 t | 3 147 | 3 118 |
| Corrugated packaging deliveries, million $m^2$ | 1 097 | 1 018 |
| Corrugated packaging production, million $m^2$ | 1 076 | 1 006 |

1) Operating profit/loss excluding fixed asset depreciation and impairment, share of results of equity accounted investments, NRI and fair valuations.
2) Operational EBIT comprises the operating profit excluding NRI and fair valuations of the segments and Stora Enso's share of the operating profit excluding NRI and fair valuations of its equity accounted investments (EAI).
3) Operational ROOC = 100% x Operational EBIT/Average operating capital.

Renewable Packaging sales were EUR 3 216 million, up 1% on 2011 due to slightly higher board volumes and clearly higher corrugated board volumes.

Operational EBIT at EUR 272 million was EUR 29 million down on the previous year mainly due to a less favourable sales mix and partly lower sales prices. Higher fixed costs due to growth initiatives were partly offset by lower fibre and corrugated raw material costs.

## Other

| EUR million | 2012 | 2011 |
|---|---|---|
| Sales | 2 683.5 | 2 700.5 |
| Operational EBITDA[1)] | -38.3 | -38.1 |
| Operational EBIT[2)] | 17.4 | 48.1 |
| % of sales | 0.6 | 1.8 |
| Average number of employees | 2 478 | 2 724 |

1) Operating profit/loss excluding fixed asset depreciation and impairment, share of results of equity accounted investments, NRI and fair valuations.
2) Operational EBIT comprises the operating profit excluding NRI and fair valuations of the segments and Stora Enso's share of the operating profit excluding NRI and fair valuations of its equity accounted investments (EAI).

Other sales were EUR 2 684 million, down 1% on 2011.

Operational EBIT at EUR 17 million was EUR 31 million down on the previous year mainly due to lower volumes for Bergvik Skog and Tornator, inventory adjustment in Nordic wood sourcing operations and write-down of capitalised project costs and unlisted shares in Group administration.

## Financial Results – Group

Sales at EUR 10 815 million were EUR 150 million or 1% lower than a year earlier mainly due to lower prices in local currencies in paper, pulp and packaging.

Operational EBIT was EUR 248 million lower than in the previous year at EUR 618 million. The operational EBIT margin decreased from 7.9% to 5.7%. Significantly lower sales prices in local currencies for paper, pulp and to some extent some packaging grades decreased the operational EBIT by EUR 262 million. Lower sales volumes in paper, pulp and sawn goods, partly offset by higher production and sales volumes for packaging grades decreased operational EBIT by EUR 18 million, but lower variable costs, mainly for corrugated raw material, paper for recycling and pulp, increased operational EBIT by EUR 67 million. Fixed costs were similar to the previous year as higher personnel costs were compensated by lower maintenance costs and actions to decrease overall fixed costs. Exchange rates had a negative net impact on sales and costs totalling EUR 28 million after hedges.

The share of the operational results of equity accounted investments amounted to EUR 119 (EUR 114) million, with the main contributions from Bergvik Skog, Veracel and Tornator.

IFRS operating profit includes a positive net effect of fair valuations of EUR 12 (negative EUR 32) million from the accounting of share-based compensation, Total Return Swaps (TRS) and $CO_2$ emission rights. IFRS operating profit also includes a negative net effect of EUR 71 (positive EUR 4) million from Stora Enso's share of net financial items, recurring taxes and IAS 41 forest valuations of equity accounted investments. A NRI gain on EAI taxes is included in IFRS operating profit.

The Group continued to restructure its asset base with permanent closure of paper machine (PM) 1 at Hylte Mill in Sweden with annual capacity 180 000 tonnes of newsprint and permanent closure of converting operations at Páty mill in Hungary. Permanent closure of the corrugated packaging plant at Ruovesi in Finland in July 2013 was

**Key Figures**

| | 2012 | 2011 |
|---|---|---|
| Sales, EUR million | 10 814.8 | 10 964.9 |
| Operational EBIT[1)], EUR million | 618.3 | 866.7 |
| Operational EBIT margin, % | 5.7 | 7.9 |
| Operating profit (IFRS), EUR million | 689.0 | 759.3 |
| Operating margin (IFRS), % | 6.4 | 6.9 |
| Return on equity (ROE), % | 8.3 | 5.6 |
| Operational ROCE, % | 7.1 | 10.0 |
| Debt/equity ratio | 0.48 | 0.47 |
| EPS (basic), EUR | 0.61 | 0.43 |
| EPS excluding NRI[2)], EUR | 0.33 | 0.63 |
| Dividend per share[3)], EUR | 0.30 | 0.30 |
| Payout ratio, excluding NRI[2)], % | 90.9 | 47.6 |
| Payout ratio (IFRS), % | 49.2 | 69.8 |
| Dividend yield, % (R share) | 5.7 | 6.5 |
| Price/earnings (R share), excluding NRI2) | 15.9 | 7.3 |
| Equity per share, EUR | 7.33 | 7.45 |
| Market capitalisation 31 Dec, EUR million | 4 222 | 3 726 |
| Closing price 31 Dec, A/R share, EUR | 5.70/5.25 | 5.03/4.63 |
| Average price, A/R share, EUR | 6.15/5.08 | 7.73/6.28 |
| Number of shares 31 Dec (thousands) | 789 538 | 789 538 |
| Trading volume A shares (thousands) | 831 | 1 402 |
| % of total number of A shares | 0.5 | 0.8 |
| Trading volume R shares (thousands) | 977 746 | 1 237 898 |
| % of total number of R shares | 159.7 | 202.1 |
| Average number of shares, basic (thousands) | 788 620 | 788 620 |
| Average number of shares, diluted (thousands) | 788 620 | 788 620 |

1) Operational EBIT comprises the operating profit excluding NRI and fair valuations of the segments and Stora Enso's share of the operating profit excluding NRI and fair valuations of its equity accounted investments (EAI).
2) NRI = Non-recurring items. These are exceptional transactions that are not related to normal business operations. The most common non-recurring items are capital gains, additional write-downs or reversals of write-downs, provisions for planned restructuring and penalties. Non-recurring items are normally specified individually if they exceed one cent per share.
3) See Board of Directors' proposal for dividend distribution.

also announced in 2012. In addition several efficiency improvement actions across all the Business Areas were started during the year. All these actions resulted in a restructuring provision non-recurring item of EUR 62 (EUR 40) million.

Impairments and impairment reversals due to restructuring and annual impairment testing resulted in a net impairment reversal of EUR 51 (negative EUR 20) million. Other non-recurring items had a combined net positive impact of EUR 140 (negative EUR 21) million mainly due to the decrease in the corporate income tax rate in Sweden, which resulted in a EUR 69 million gain in the Group's equity accounted investment Bergvik Skog recognised in operating profit, the EUR 41 million tax-free dividend income from Pohjolan Voima and EUR 21 million due to a release of a valuation allowance on value added tax for Arapoti Mill in Brazil. Other non-recurring items in 2011 related mainly to an increase in the water purification and a water level adjustment provision at the former mine at Falun in Sweden.

IFRS operating profit was EUR 689 (EUR 759) million.

Net financial expenses were EUR 207 (EUR 338) million. Net interest expenses increased from EUR 122 million to EUR 171 million, due to increased gross debt. Net foreign exchange losses amounted to EUR 12 (EUR 27) million. The net loss from other financial items totalled EUR 25 (EUR 189) million including a EUR 34 million gain from the reversal of provisions and settlement of the NewPage lease guarantee reported as non-recurring item and EUR 43 million losses related to the fair valuations of interest rate derivatives. A EUR 128 million provision due to the NewPage lease guarantee and a EUR 10 million write-down of loan receivables were both included in other financial items in 2011 as non-recurring items.

Profit before tax excluding non-recurring items decreased by EUR 321 million to EUR 319 million. Profit before tax including non-recurring items was EUR 482 (EUR 421) million.

The net tax charge totalled positive EUR 9 (negative EUR 79) million, equivalent to a positive effective tax rate of 1.8% (negative 18.7%), as described in more detail in Note 9 to the Group Consolidated Financial Statements.

The profit attributable to non-controlling interests was EUR 10 (EUR 2) million, leaving a profit of EUR 481 (EUR 340) million attributable to Company shareholders.

Earnings per share excluding non-recurring items were EUR 0.33 (EUR 0.63) and including non-recurring items EUR 0.61 (EUR 0.43). Cash earnings per share were EUR 1.07 (EUR 1.33) excluding non-recurring items. Operational return on capital employed was 7.1% (10.0%).

Group capital employed was EUR 8 633 million on 31 December 2012, a net decrease of EUR 73 million on a year earlier.

## Breakdown of Capital Employed Change

| | Capital Employed |
|---|---|
| **31 Dec 2011, EUR million** | **8 706** |
| Equity accounted investments | 110 |
| Net tax liabilities | 140 |
| Available-for-sale: operative (mainly PVO) | -190 |
| Net liabilities in defined benefit plans | -130 |
| Operative working capital and other interest-free items, net | -50 |
| Translation difference | 50 |
| Other changes | -3 |
| **31 Dec 2012, EUR million** | **8 633** |

## Financing

Cash flow from operations remained strong at EUR 1 253 (EUR 1 034) million and cash flow after investing activities was EUR 578 (EUR 496) million. Working capital decreased by EUR 72 (increase of EUR 217) million mainly due to lower inventories.

### Cash Flow

| EUR million | 2012 | 2011 |
|---|---|---|
| Operating profit | 689.0 | 759.3 |
| Depreciation and other non-cash items | 491.3 | 492.0 |
| Change in working capital | 72.4 | -217.0 |
| **Cash Flow from Operations** | **1 252.7** | **1 034.3** |
| Cash spent on fixed and biological assets | -560.7 | -409.6 |
| Acquisitions of equity accounted investments | -114.5 | -128.6 |
| **Cash Flow after Investing Activities** | **577.5** | **496.1** |

At the end of the period, net interest-bearing liabilities of the Group were EUR 2 757 million, similar to a year earlier. Cash and cash equivalents net of bank overdrafts amounted to EUR 1 845 million, compared with EUR 1 134 million at the end of 2011, an increase of EUR 711 million due to strong cash flow from operations and proceeds from new long-term debt.

Total unutilised committed credit facilities at the year end 2012 were unchanged at EUR 700 million. The EUR 700 million committed credit facility agreement with a syndicate of 16 banks matures in January 2015 and will be used as a back stop facility for general corporate purposes. In addition, Stora Enso has access to various long-term sources of funding up to EUR 600 million.

The debt/equity ratio at 31 December 2012 was 0.48 (0.47). The currency effect on equity was negative EUR 42 million net of the hedging of equity translation risks mainly due to weakening of the Brazilian real and partly offset by the strengthening of the Polish zloty and the Swedish krona. The fair valuation of cash flow and commodity hedges and available-for-sale investments recorded in other comprehensive income decreased equity by EUR 155 million primarily because of the approximately EUR 190 million decrease in the PVO valuation mainly due to lower anticipated future electricity prices.

At the end of the year, the ratings for Stora Enso's rated bonds were as follows:

| Rating agency | Long/short-term rating | Valid from |
|---|---|---|
| Standard & Poor's | BB (negative) / B | 25 October 2012 |
| Moody's | Ba2 (negative) / NP | 24 October 2012 |
| Fitch | BB- (stable) / B | 26 July 2012 (unsolicited) |

## Capital expenditure

Capital expenditure including interest and internal costs capitalised in 2012 totalled EUR 556 million, which is EUR 103 million more than in 2011. Equity injections for projects in equity accounted investments totalled EUR 115 million, which is EUR 14 million less than in 2011.

During the year the Group continued to invest in the strategic focus areas. The announcement in March 2012 that Stora Enso intends to build plantation-based integrated board and pulp mills at Beihai City in Guangxi, southern China was a significant step in transforming Stora Enso. It is planned that the mill site will initially include a 450 000 tonnes per year paperboard machine and pulp capacity of 900 000 tonnes per year, but the aim is to expand the paperboard capacity to 900 000 tonnes at a later stage. The operations will be managed by an equity joint-venture company established by Stora Enso (85%) and the Guangxi Forestry Group (15%), which is a state-owned company under the Guangxi provincial government. The industrial part of the project will be launched at full speed once the specific preconditions have been fulfilled. The total investment in the project is expected to be approximately EUR 1.6 billion. The capital expenditure on the forestry and industrial parts of the project during 2012 totalled approximately EUR 25 million.

In September 2012 the Group announced that it had signed an agreement to establish a joint venture called Bulleh Shah Packaging (Private) Limited with Packages Ltd. of Pakistan. The joint venture includes operations at Kasur and Karachi in Pakistan and will focus on providing packaging products to key local and international customers in the fast-growing Pakistani market. The agreed value for 100% of the joint-venture company is about EUR 83 million and as part of the agreement, both parties are committed to a substantial EUR 103 million investment programme during 2013 and 2014 to develop the business further.

Many previously announced growth investments progressed according to plan during 2012. The new containerboard machine at Ostrołęka Mill in Poland was started up in January 2013 as planned. The new containerboard capacity will strengthen Stora Enso's leading position in the growth markets of Central and Eastern Europe. At Skoghall Mill in Sweden a major investment project in renewing the woodroom and woodyard was completed according to the plan by end of 2012. The capitalisation of these two major investments at Ostrołęka and Skoghall mills totalled EUR 228 million.

Another major growth initiative, building a new state-of-the-art 1.3 million tonnes per year pulp mill at Punta Pereira in Uruguay, progressed further during the year. The mill is being built by Montes del Plata, a joint venture with Arauco. During 2012 Stora Enso contributed directly to the project through equity injections of EUR 115 million into Montes del Plata.

In the Building and Living Business Area, investments to improve the cost-competitiveness and energy efficiency of key assets progressed during 2012. The greenfield investment in a new cross-laminated timber (CLT) production unit at Ybbs Sawmill in Austria was completed as planned during the third quarter of 2012. The combined heat and power (CHP) plant investment at Zdírec Sawmill in the Czech Republic continued and is scheduled to be completed in the third quarter of 2013. The capitalisation in these two strategic growth investments totalled EUR 11.6 million during 2012.

During 2012 the Group continued to develop its assets through further targeted strategic efficiency improvement investments, with the focus on key assets. The total amount invested in such strategic development investments in 2012 was EUR 124 million.

## Research and development

Stora Enso's expenditure on research and development (R&D) in 2012 was EUR 81 (EUR 80) million, equivalent to 0.7% (0.7%) of sales.

Stora Enso's priorities in innovation were on renewal of the Group and implementation of its new strategy.

The Group's R&D platforms include bio-based barriers, micro materials, composites, biochemistry and separation technology, and wood-based building solutions. Intellectual property management was a key priority. About fifty patent applications were registered during 2012, and patents were bought and sold during the year.

The biorefinery unit has developed into real business through innovative R&D and commercialisation efforts. It was therefore transferred from the Group Technology function into the Biomaterials Business Area with effect from 1 January 2013.

The pre-commercial microfibrillated cellulose (MFC) plant at Imatra was started up very successfully. Results in general are very promising, and the programme has reached the customer testing phase. Preparation for full-scale investments continued intensively, achieving readiness for full-scale plant investment.

Development work on biomass-based fuels continued. Subsidy schemes and public support for investment were considered critical to the profitability of biofuels. This work was undertaken partly in good and close co-operation with Neste Oil.

Efforts to replace fossil-based chemicals and polymers with bio-based materials continued widely.

Preparations for the Uruguayan Montes del Plata and Chinese major capital investment projects were strongly supported by the R&D experts. Preparation for the joint venture with Packages Ltd. of Pakistan was supported by the R&D team of Stora Enso.

Intelligent pharmaceutical packaging was a major new business development topic. This innovation project has developed packaging to address the problem of poor adherence to prescription instructions by patients. The system simplifies communication between patient and doctor by registering when pills are removed from the package. The project has reached the commercialisation stage.

Forest biology and biotechnology have been a major area of R&D, partly together with SweTree Technologies Ltd. Stora Enso's own resourcing was increased.

Minimisation of water consumption is a major issue for Stora Enso globally. The aim is to reduce the use of natural resources and energy as water pumping and evaporation are major energy-consuming processes. The water consumption of the pulp mills was the main focus in 2012. The ongoing efforts in paper and paperboard operations will be further intensified.

## Personnel

On 31 December 2012 there were 28 203 employees in the Group, 1 302 less than at the end of 2011. The average number of employees in 2012 was 28 777, which was 819 higher than the average number in 2011.

Personnel expenses totalled EUR 1 361 (EUR 1 394) million or 12.6% of sales. Wages and salaries were EUR 1 035 (EUR 1 015) million, pension costs EUR 163 (EUR 173) million and other employer costs EUR 163 (EUR 207) million.

The majority of employees, 52%, were still in Finland, Sweden and Germany.

The Group has an ageing workforce in the majority of countries where it operates, especially in Finland, Sweden and Germany, where 36%, 41% and 34% of employees respectively were 51 years old or older. In China and Latin America only 3% and 8% of employees respectively were 51 years old or older.

As regards gender, 23% (24%) of employees were women, and 35% (43%) of recruits to permanent positions in 2012 were women, the highest percentage of women recruited being in Asia.

Personnel turnover in 2012 was 12.8% (11.0%). Employee-related information is discussed in more detail in the Group's 2012 Global Responsibility Report.

The Group absenteeism rate due to sickness and accidents was 3.1% (3.4%) of total theoretical working hours.

## Risks and risk management

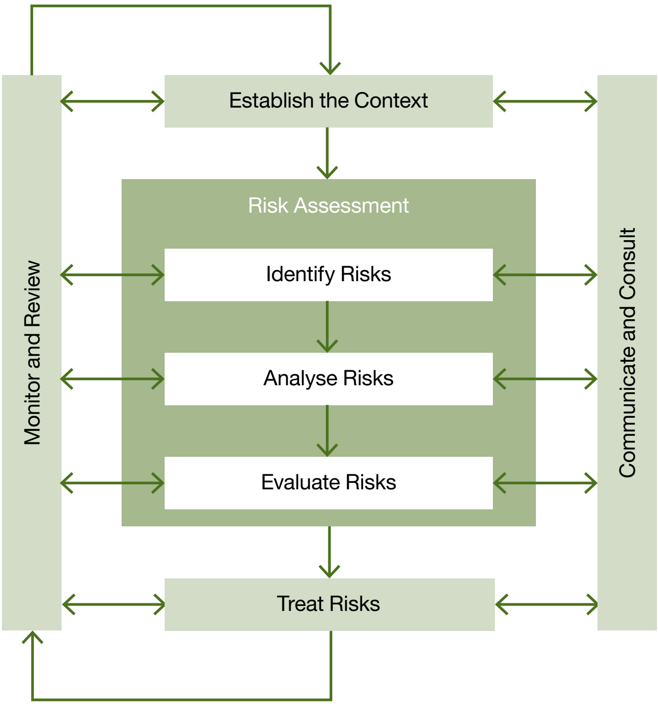
The Group Executive Team, Business Areas, Group Functions, production units and projects are responsible for managing risks that might have an adverse effect on the achievement of their objectives and goals. To achieve this Stora Enso has implemented an enterprise risk management process for identifying and treating risks as well as exploiting opportunities, thereby increasing the likelihood of achieving objectives. The Stora Enso Group Risk Policy sets out the overall approach to governance and management of risks. The aim is continuous monitoring of identified material risks and prioritising of risks based on their likelihood at all levels in the organisation and taking them into account in the strategic and business planning processes. Stora Enso also identifies and manages related opportunities. The process is systematically treated in a risk assessment tool to secure a structured handling for the management of all risks. The process mainly follows ISO 31000 but COSO is also used as input.

During the risk identification process, risks and uncertainties are categorised based on the source of risk (risk driver). These risk sources are then split between external and internal ones. The main risk categories for various risk sources are marketplace, financial, infrastructure and reputational.

Within each main risk category, risks are divided based on the duration and magnitude of their effect into strategic, tactical and operational. Risk types are further divided into uncertainty, hazard or opportunity. Stakeholders affected by the risk are separately identified.

Despite the measures taken to manage risks and mitigate the impact of risks, there can be no assurance that such risks, if they occur, will not have a materially adverse effect on Stora Enso's business, financial condition, operating profit or ability to meet all financial obligations.

**Risk Management Process**




## Marketplace

**Business environment risks**

Continued competition and supply and demand imbalances in the paper, pulp, packaging and wood products markets may have an impact on profitability. The paper, pulp, packaging and wood products industries are mature, capital intensive and highly competitive. Stora Enso's principal competitors include a number of large international forest products companies and numerous regional and more specialised competitors.

Economic cycles, the sovereign debt crisis in Europe and changes in consumer preferences may have an adverse effect on profitability. The ability to respond to changes in consumer preferences and to develop new products on a competitive and economic basis calls for continuous capacity management, production curtailments and structural development.

Increased input costs such as, but not limited to, energy, fibre, other raw materials, transportation and labour may adversely affect profitability. Securing access to reliable low-cost supplies and proactively managing costs and productivity are of key importance.

Changes in legislation, especially environmental regulations, may affect Stora Enso's operations. Stora Enso follows, monitors and actively participates in the development of environmental legislation to minimise any adverse effects on its business. Tighter environmental legislation such as sulphur regulation of maritime fuels and $CO_2$ regulations may affect the supply chain or production costs.

**Business development risks**

Business development risks are mainly related to Stora Enso's strategy and its implementation. The Group aims to transform itself from a European pulp and paper company into a value-creating, growth-markets-oriented, renewable materials Group. This will be achieved through organic growth and selective mergers and acquisitions, mainly in growth markets, and through operational improvements to the existing production base.

Large single investments in developing economies have a significant impact on a substantial number of local people. Stora Enso's operations in such countries are affected by local cultural and religious factors, environmental and social issues, and the ability to cope with local and international stakeholders. The risks related to these issues are mitigated through accurate and detailed feasibility studies prepared before each large single investment. The value of investments in growth markets may be affected by political, economic and legal developments in those countries. Stora Enso is also exposed to risk related to reorganisations and improvements in existing establishments.

Stora Enso manages risks related to potential mergers and acquisitions through its corporate merger and acquisition guidelines and due diligence process as well as structured governance when making decisions. These guidelines ensure Stora Enso's strategic and financial targets, and risks related to environmental and social responsibility are taken into account.

Business development risks also include risks related to the supply and availability of natural resources, raw materials and energy, and the availability of trained personnel.

**Supplier risks**

In many areas Stora Enso is dependent on suppliers and their ability to deliver a product or a service at the right time and of the right quality. The most important products are fibre, chemicals and energy, and in capital investment projects machinery and equipment. The most important services are transport and outsourced business and maintenance services. For some of these inputs, the limited number of suppliers is a risk. The Group therefore uses a wide range of suppliers and monitors them to avoid situations that might jeopardise continued production, business transactions or development projects. Environmental and social responsibility in wood procurement and forest management is a prime requirement of stakeholders. Failing to ensure that the origin of wood used by the Group is acceptable could have serious consequences in markets. Stora Enso manages this risk through its policies for sustainable sourcing of wood and fibre, and for land management, which set the basic requirements for all Stora Enso wood procurement operations. Traceability systems are used to document that all wood and fibre come from legal and acceptable sources.

Unpredicted changes in certification schemes and increased customer requirements could limit the availability of certified raw material. Forest management certification and chain-of-custody certification are tools for managing risks related to the acceptability of wood. Stora Enso's sustainable supply chain management principles and systems cover other raw materials such as pulp and chemicals, and also logistics.

**Market risks**

The risks related to factors such as demand, price, competition, customers, suppliers, raw materials and energy are regularly monitored by each Business Area and unit as a routine part of its business. These risks are also monitored and evaluated by the corporate functions Finance and Strategy to get a perspective of the Group's total asset portfolio and overall long-term profitability potential.

Customer demand for products is influenced by general economic conditions and inventory levels, and affects product price levels. Product prices, which tend to be cyclical in this industry, are affected by capacity utilisation, which decreases in times of economic slowdowns. Changes in prices differ between products and geographic regions.

Customer credit risk is discussed in more detail in Note 25, Financial Risk Management.

The next table shows Stora Enso's major cost items.

**Composition of Costs in 2012**

| Costs excl. Non-recurring items and fair valuations | % of Costs | % of Sales |
|---|---|---|
| Logistics and commissions | 10 | 9 |
| **Manufacturing Costs** | | |
| Fibre | 37 | 36 |
| Chemicals and fillers | 10 | 10 |
| Energy | 9 | 9 |
| Material | 3 | 3 |
| Personnel | 14 | 13 |
| Other | 11 | 10 |
| Depreciation | 6 | 5 |
| **Total Costs/Sales** | **100** | **95** |
| **Total Costs/Sales EUR million** | **10 316** | **10 815** |
| Equity accounted investments (EAI), operational | | 119 |
| **Operational EBIT** | | **618** |

**Sensitivity analysis**

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

Group profit is affected by changes in price and volume, though the impact on operating profit depends on the segment. The table below shows the operating profit sensitivity to a +/- 10% change in either price or volume for different segments based on figures for 2012.

**Operating Profit: Impact of Changes +/- 10%, EUR million**

| Segments | Price | Volume |
|---|---|---|
| Printing and Reading | 457 | 127 |
| Biomaterials | 96 | 19 |
| Building and Living | 163 | 29 |
| Renewable Packaging | 305 | 114 |

**Commodity and energy price risk**

Reliance on outside suppliers for fossil fuels such as natural gas, oil and coal, and for peat and nearly half of the electricity consumed, leaves the Group susceptible to changes in energy market prices and disturbances in the supply chain.

The Group applies consistent long-term energy risk management. The price and supply risks are mitigated through increased own generation, shareholding in competitive power assets such as PVO/TVO, physical long-term contracts and financial derivatives. The Group hedges price risks in raw material and end-product markets, and supports development of financial hedging markets.

## Infrastructure

**Human resources risks**

Developing a competent workforce and managing key talent throughout Stora Enso's global organisation are crucial to the success of the Group. Stora Enso manages the risks and loss of key talents through a combination of different actions. Some of the activities aim at providing a better overview of the whole workforce of the Group, making the Stora Enso employer brand better known both internally and externally, globalising some of the remuneration practices and intensifying the efforts to identify and develop talents. Last but not least, the Group actively works on talent and management assessments and succession planning for key positions.

**Climate change risks**

Stora Enso is committed to contributing to mitigating the effects of climate change by actively seeking opportunities to reduce the Group's carbon footprint. Risks related to climate change are managed via activities related to finding clean, affordable and safe energy sources for production and transportation, and reducing energy consumption. Additional measures include energy efficiency initiatives, use of carbon-neutral biomass fuels, maximising utilisation of combined heat and power, and sequestration of carbon dioxide in forests and products. The Group's wood-based products are a better alternative for minimising climate change than more carbon-intensive products.

**Labour market disruption risk**

A significant portion of Stora Enso employees are members of labour unions. There is a risk that the Group may face labour market disruptions that could interfere with operations and have material adverse effects on the business, financial conditions and profitability, especially at a time of restructuring and redundancies due to divestments and closures. The majority of employees are represented by labour unions under several collective agreements in different countries where Stora Enso operates, so relations with unions are of high priority.

**Supply chain risks**

Managing risks related to suppliers and subcontractors is important to Stora Enso. The ability of suppliers and subcontractors to meet quality stipulations and delivery times is crucial to the efficiency of production and investments. The following risk mitigation instruments are in place: price volatility tracking of raw materials and financial risk monitoring of suppliers.

Suppliers and subcontractors must also comply with Stora Enso's sustainability requirements as they are part of Stora Enso's value chain, and their sustainability performance could harm Stora Enso and its reputation.

Stora Enso's sustainability requirements for suppliers and audit schemes cover its raw materials, and other goods and services procured. Suppliers are assessed for risks related to their environmental, social and business practices through self-assessment questionnaires and supplier audits. Findings from such assessments are continuously followed up.

**Information Technology (IT) risks**

Stora Enso operates in a business environment where information has to be available and its confidentiality protected to support the business processes. Management of risks is actively pursued within the framework of Stora Enso's Enterprise Risk Management process and the Information Risk Management System. A number of security controls were implemented during 2012 to strengthen the protection of confidential information and to facilitate compliance with international regulations.

**Property and business disruption risks**

Protecting production assets and business results is a high priority for Stora Enso to achieve the target of avoiding any unplanned production stoppages. This is done by structured methods of identifying, measuring and controlling different types of risk and exposure. Stora Enso Group Risk Management (GRM) manages this process together with insurance companies and other loss prevention specialists. Each year a number of technical risk inspections are carried out at production units. Risk improvement programmes and cost-benefit analysis of proposed investments are managed by internal reporting and risk assessment tools. Internal and external property loss prevention guidelines, fire loss control assessments, key machinery risk assessments and specific loss prevention programmes are also utilised.

Planned stoppages for maintenance and other work are important in keeping machinery in good condition. Formal computerised preventive maintenance programmes and spare part criticality analysis are utilised to secure a high availability and efficiency of key machinery.

Striking a balance between accepting risks and avoiding, treating or sharing risks is a high priority. GRM is responsible for ensuring that the Group has adequate insurance cover and supports units in their loss prevention and loss control work. The total cost of risks is optimised by the use of the Group's own captive insurance company.

**Health and Safety risks**

Stora Enso's target is that workplaces are free from accidents and work-related illnesses and that employees are healthy and have good working ability. Stora Enso measures its performance in health and safety through lag indicators on accidents and near-misses, and lead indicators on safety observations. The target in safety is zero accidents, but demanding milestones for the end of 2013 have also been set for accident and incident rates. In 2012 Stora Enso adopted a common model for safety management, establishing a set of safety tools that all units must implement in their operations. Implementation of the tools is followed up and reported monthly, and support is offered to units through training, coaching and best-practice sharing. The main responsibility for identifying and managing safety risks remains with the units. At mill level, safety and health risks are assessed jointly, in co-operation with the occupational health service providers. Global health risks are monitored and assessed by Group Health and Safety.

**Personnel security risks**

Personnel security can never be compromised, so Stora Enso has to be aware of potential security risks and give adequate guidelines to people for managing risks related to, for example, travel, work and living in countries with security or crime concerns. Focusing on the security of key personnel is also important from a business continuity perspective. Stora Enso constantly monitors risks related to personnel security, including health issues, and information is available on the Intranet and delivered directly to travelling employees. An assistance provider partner takes care of action in medical or security crises, under guidance from Stora Enso's crisis management team. The crisis management team is chaired by the Head of Human Resources, who is a Group Executive Team member.

**Natural catastrophe risks**

Stora Enso has to acknowledge that natural catastrophes such as storms, flooding, earthquakes or volcanic activity may affect the Group's premises and operations. However, most of the Group's assets are located in areas where the probability of flooding, earthquakes and volcanic activity is low. The outcome of such catastrophes can be diminished by emergency and business continuity plans that have been proactively designed together with the relevant authorities.

## Reputational

**Business Practice Policy related risks**
Stora Enso's Business Practice Policy is continuously kept up to date. This policy clearly states Stora Enso's support of ethical and legally compliant business practices, including, but not limited to, free and fair competition and zero tolerance of corrupt activities of any kind. These commitments are also an integral part of Stora Enso's Code of Conduct. Stora Enso will continue to take action to emphasise its commitment to ethical and compliant operations through risk assessments, corporate policies and training, supply change management and an effective grievance mechanism.

**Governance risks**
Stora Enso is a large international Group containing a variety of operational and legal structures, so clear governance rules are essential. Stora Enso has well-defined Corporate Governance with bodies that have different tasks and responsibilities to ensure structured handling of all important issues regarding the development of the Group.

Stora Enso's Disclosure Policy emphasises the importance of transparency, credibility, responsibility, proactivity and interaction. It was formulated from the communications practices of the Group, which follow laws and regulations applicable to the Company.

**Environmental risks**
Stora Enso may face high compliance and remediation costs under environmental laws and regulations, which could reduce profit margins and earnings. These risks are minimised through environmental management systems and environmental due diligence for acquisitions and divestments, and indemnification agreements where effective and appropriate remediation projects are required. Remediation projects are related to old activities and mill closures.

**Product safety risks**
Among the uses for Stora Enso paper and board are various food contact and other sensitive applications for which food and consumer and product safety issues are important. The mills producing these products have established or are working towards certified hygiene management systems based on risk and hazard analysis. To ensure the safety of its products, Stora Enso actively participates in CEPI (Confederation of European Paper Industry) working groups on chemical and product safety. In addition, all Stora Enso mills have certified ISO quality management systems.

**Social risks**
Social risks may harm the development of investments, especially in growth markets, and their relationship with local stakeholders. Stora Enso strives to identify and minimise risks related to social issues in good time, in order to guide decision-making in its investment processes. Tools such as sustainability due diligence and Environmental and Social Impact Assessments (ESIA) help ensure that no unsustainable projects are initiated and all related risks and opportunities are fully understood. They also enable project plans to be adapted to suit local circumstances.

## Financial risks

Stora Enso is exposed to several financial market risks that the Group is responsible for managing under policies approved by the Board of Directors. The objective is to have cost-effective funding in Group companies and manage financial risks using financial instruments to decrease earnings volatility. The main exposures for the Group are interest rate risk, currency risk, funding risk and commodity price risk, especially for fibre and energy.

Financial risks are discussed in detail in Note 25, Financial Risk Management.

# Environmental issues

Stora Enso's environmental work has two main focuses: first, to minimise the environmental impacts of its operations; secondly, to use raw materials as efficiently as possible to ensure valuable natural and financial resources are not wasted.

Stora Enso's environmental costs in 2012 excluding interest and including depreciation totalled EUR 175 (EUR 200) million. Environmental costs are related to operational costs which include e.g. water use and water treatment, air emission abatement measures, waste management, administrative costs for environmental management, taxes, fees and permits.

Provisions for environmental remediation amounted to EUR 114 (EUR 126) million at 31 December 2012, details of which are in Note 23 to the Consolidated Financial Statements, Other Provisions. In 2012, EUR 10 million was spent on remediation activities. There are currently no active or pending legal claims concerning environmental issues that could have a material adverse effect on Stora Enso's financial position.

In 2012 Stora Enso's environmental investments amounted to EUR 23 (EUR 22) million. These investments were mainly to improve the quality of air and water, to enhance resource efficiency and to minimise the risk of accidental spills.

All Stora Enso's units have operational responsibility for their environmental management. Stora Enso has management systems in place to ensure that all units adopt the best environmental practices. All Stora Enso's pulp, paper and board production units are certified according to the ISO 14001 management system standard. A full list of the mills and their certifications can be seen in Stora Enso's Global Responsibility Report 2012 or at the website www.storaenso.com/certificates.

Stora Enso is committed to continually making improvements in environmental protection. Targets have been set for emissions to air, process water discharges and waste. Progress towards these targets is monitored on a quarterly basis, and consolidated results are reported transparently every year.

Stora Enso's target is to reduce normalised process water discharges by 10% of their 2005 levels by 2013. During 2012 the Group made progress towards this target. Total discharges of process water have been reduced by 7.5% since 2005.

Another target Stora Enso has set for its water discharges is to reduce the average Chemical Oxygen Demand (COD) of its water releases by 10% from 2007 levels by the end of 2013. During 2012 no progress was achieved for normalised COD discharges and our performance is still 4.5% lower than in 2007.

Normalised discharges of nitrogen and phosphorus into water were slightly higher in 2012 than in 2011. Compounds of nitrogen and phosphorus are used to provide nutrient sources for the micro-organisms that are vital to the biological waste water treatment processes. In natural water bodies, excessive amounts of nitrogen and phosphorus can lead to increased biological activity through eutrophication. Over the past five years, Stora Enso's normalised discharges of phosphorus have declined by 6% and discharges of nitrogen have increased by 12%.

Stora Enso's atmospheric emissions mainly result from the combustion of fuels used in energy generation. These emissions include carbon dioxide ($CO_2$), sulphur dioxide ($SO_2$) and nitrogen oxides ($NO_x$). Stora Enso has a $CO_2$ intensity reduction target for its pulp, paper and board mills. The target is to reduce the $CO_2$ emissions per tonne of product from the Group's pulp, paper and board mills by 35% compared with the baseline year 2006 by 2025. During 2012 Stora Enso's normalised $CO_2$ emissions continued to decrease and are currently 32% lower than in 2006. The reduction in recent years has been achieved mainly through investments in biomass boilers reducing the use of fossil fuels and increased internal power and heat production. Other improvements have been made in productivity, the use of more efficient equipment and streamlined processes. This beneficial trend continued in 2012 thanks to efforts made in many mills, such as. Langerbrugge and Maxau, which continued to leverage the recent investments made in power plants to increase the production of electricity, thus reducing their $CO_2$ emissions by 110 000 tonnes compared with 2011.

Over the five-year period 2008-2012, Stora Enso's normalised emissions of nitrogen oxides ($NO_x$) were increased by 8% but its our normalised emissions of $SO_2$ remained stable.

Residual materials that cannot be reused end up in landfills. In 2012 Stora Enso's total waste to landfill rate decreased to 11 kg/tonne of pulp, paper and board produced (12 kg/tonne in 2011). The target reduction in normalised waste to landfill is 5% from 2007 levels by the end of 2013. In 2012, 2.5% less waste went to landfill than in the target base-line year. One challenge is the increased use of biomass fuels, which generate more ashes than other fuels, coupled with the reduced demand for residual ash for beneficial uses. New and innovative ways to reuse materials that would otherwise end up as wastes are therefore constantly being sought. For instance, the Group's current approaches and activities related to resource and materials efficiency are being evaluated with the aim to establish a new target that will replace the current waste to landfill target. Despite the challenges, 97% of the Group's waste was successfully reused in 2012 (97% in 2011).

Hazardous wastes from our production include used oils, solvents, paints, laboratory chemicals and batteries. In 2012 Stora Enso's production units created a total of 4 444 tonnes of hazardous waste, down from 7 777 tonnes in 2011. Hazardous wastes are disposed of by ensuring that they are safely processed at hazardous waste facilities or incinerators. Stora Enso reports on disposal of its hazardous wastes in line with definitions set out in respective national regulations. No significant spills, releases or leakages of hazardous wastes occurred in 2012.

In 2012 Stora Enso continued to participate actively as a member of the following associations and various international initiatives: World Business Council for Sustainable Development (WBCSD), Confederation of European Paper Industries (CEPI), The Alliance for Beverage Cartons and the Environment (ACE), UN Global Compact, The Forest Dialogue (TFD) and Water Footprint Network, as well as national industry federations and forest certification bodies.

Verified information on environmental matters is published in the separate report Global Responsibility 2012.

## Corporate Governance in Stora Enso

Stora Enso's Corporate Governance complies with the Finnish Corporate Governance Code (the "Code") issued by the Securities Market Association that entered into force on 1 October 2010. The Code is available at the internet website www.cgfinland.fi. Stora Enso's Corporate Governance also complies with the Swedish Corporate Governance Code ("Swedish Code") which entered into force on 1 February 2010 (and applicable to Stora Enso as a foreign company from 1 January 2011), with the exception of the deviations that are listed in Stora Enso's full Corporate Governance Report. The deviations are due to differences between the Swedish and Finnish legislation, governance code rules and practices, and in these cases Stora Enso follows the practice in its domicile. The Swedish Code is issued by the Swedish Corporate Governance Board and is available at the internet website www.corporategovernanceboard.se.

Stora Enso's full Corporate Governance Report is available as a PDF document at www.storaenso.com/investors/governance.

## Class Action Lawsuits in USA

In the context of magazine paper sales in the USA in 2002 and 2003, Stora Enso Oyj (SEO) and Stora Enso North America (SENA) were sued in a number of class action (and other civil) lawsuits filed in the USA by various magazine paper purchasers that claimed damages for alleged antitrust violations. On 14 December 2010 a US federal district court granted a motion for summary judgement that Stora Enso had filed on behalf of both SEO and SENA seeking dismissal of the direct purchaser class action claims. Following appeal, a federal court of appeals on 6 August 2012 upheld the district court's ruling as to SEO, which means that the direct purchaser class action claims against SEO have been found to be without legal foundation, but reversed the district court's ruling as to SENA and referred that part of the case back to the district court for a jury trial to determine whether SENA's conduct did violate the federal antitrust laws. The appeal court's decision is procedural and does not constitute a legal finding that SENA has violated antitrust laws. A motion by SENA requesting the US Supreme Court to review and reverse the federal court of appeals decision vacating the district court's ruling as to SENA has been dismissed by the Supreme Court and the case against SENA will now proceed to trial in the district court. Furthermore, most of the indirect purchaser actions have been dismissed by a consent judgement, subject, however, to being reinstated if the plaintiffs in the direct cases are ultimately successful in obtaining a final judgement that SENA violated antitrust laws. Since Stora Enso disposed of SENA in 2007, Stora Enso's liability, if any, will be determined by the provisions in the SENA Sales and Purchasing Agreement. No provisions have been made in Stora Enso's accounts for these lawsuits.

## Legal Proceedings in Finland

On 3 December 2009 the Finnish Market Court fined Stora Enso for competition law infringements in the market for roundwood in Finland from 1997 to 2004. Stora Enso did not appeal against the ruling.

On 31 March 2011 Metsähallitus of Finland initiated legal proceedings against Stora Enso, UPM and Metsäliitto claiming compensation for damages allegedly suffered due to the competition law infringements. The total claim against all the defendants amounts to approximately EUR 160 million and the secondary claim against Stora Enso to approximately EUR 85 million.

In addition, Finnish municipalities and private forest owners have initiated similar legal proceedings. The total amount claimed from all the defendants amounts to approximately EUR 70 million and the secondary claims and claims solely against Stora Enso to approximately EUR 25 million.

Stora Enso denies that Metsähallitus and other plaintiffs have suffered any damages whatsoever and will forcefully defend itself. No provisions have been made in Stora Enso's accounts for these lawsuits.

## Changes in Organisational Structure and Group Management

On 17 January 2012 Stora Enso announced that it was renewing its Business Area and Reporting Segment structure. The changes in the Business Areas and management took effect as of 17 January 2012.

The Group Executive Team has been as follows since 19 March 2012:
Jouko Karvinen, Chief Executive Officer
Juan Bueno, Executive Vice President, Biomaterials Business Area
Lars Häggström, Executive Vice President, Global People and Organisation
Hannu Kasurinen, Executive Vice President, Building and Living Business Area
Per Lyrvall, Executive Vice President, Global Ethics and Compliance, General Counsel
Mats Nordlander, Executive Vice President, Renewable Packaging Business Area
Lauri Peltola, Executive Vice President, Global Identity
Karl-Henrik Sundström, Executive Vice President, Chief Financial Officer (as of 1 August 2012)
Juha Vanhainen, Executive Vice President, Printing and Reading Business Area

Markus Rauramo, Executive Vice President, Chief Financial Officer and a member of the Group Executive Team, relinquished his duties with Stora Enso on 31 July 2012.

## Share capital

Stora Enso Oyj's shares are divided into A and R shares. The A and R shares entitle holders to the same dividend but different voting rights. Each A share and each ten R shares carry one vote at a shareholders' meeting. However, each shareholder has at least one vote.

During the year a total of 1 000 A shares were converted into R shares. The conversions were recorded in the Finnish Trade Register on 16 January 2012.

On 31 December 2012 Stora Enso had 177 147 772 A shares and 612 390 727 R shares in issue, of which the Company held no A shares and 918 512 R shares with an accountable par of EUR 1.6 million. The holding represents 0.12% of the Company's share capital and 0.04% of the voting rights. The total number of Stora Enso shares in issue was 789 538 499 and the total number of votes 238 386 844.

The Board of Directors is not currently authorised to issue, acquire or dispose of shares in the Company.

Information on the fifteen largest shareholders by holding and voting is presented in Stora Enso in Capital Markets on page 4.

### Share Distribution, 31 December 2012

| By size of holding, A shares | Shareholders | % | Shares | % |
|---|---|---|---|---|
| 1–100 | 2 956 | 38.36 | 162 259 | 0.10 |
| 101–1 000 | 4 030 | 52.29 | 1 523 284 | 0.86 |
| 1 001–10 000 | 683 | 8.86 | 1 629 199 | 0.92 |
| 10 001–100 000 | 32 | 0.42 | 592 491 | 0.33 |
| 100 001–1 000 000 | 1 | 0.01 | 603 718 | 0.34 |
| 1 000 001– | 5 | 0.06 | 172 636 821 | 97.45 |
| **Total** | **7 707** | **100.00** | **177 147 772** | **100.00** |

| By size of holding, R shares | Shareholders | % | Shares | % |
|---|---|---|---|---|
| 1–100 | 6 472 | 19.95 | 432 234 | 0.07 |
| 101–1 000 | 18 645 | 57.45 | 8 504 245 | 1.39 |
| 1 001–10 000 | 6 671 | 20.56 | 18 431 607 | 3.01 |
| 10 001–100 000 | 562 | 1.73 | 15 163 770 | 2.48 |
| 100 001–1 000 000 | 78 | 0.24 | 25 811 265 | 4.21 |
| 1 000 001– | 24 | 0.07 | 544 047 606 | 88.84 |
| **Total** | **32 452** | **100.00** | **612 390 727** | **100.00** |

According to Euroclear Finland.

### Ownership Distribution, 31 December 2012

| | % of shares | % of votes |
|---|---|---|
| Foundation Asset Management | 10.1 | 27.2 |
| Solidium Oy[1] | 12.3 | 25.1 |
| Finnish institutions | 15.8 | 21.9 |
| Under nominee names (non-Finnish/ non-Swedish shareholders) | 35.5 | 11.9 |
| Swedish institutions | 13.5 | 6.9 |
| Swedish private shareholders | 4.6 | 3.1 |
| Finnish private shareholders | 4.5 | 2.7 |
| ADR holders | 3.7 | 1.2 |
| **Total** | **100.0** | **100.0** |

[1] Entirely owned by the Finnish State

## Near-term outlook

In the first quarter of 2013 Group sales are expected to be at roughly similar level but operational EBIT in the order of magnitude one-third lower than in the fourth quarter of 2012 due to deterioration in European paper and Building and Living markets. In Biomaterials, Veracel Pulp Mill will take its annual maintenance stoppage during the quarter.

## Proposal for the distribution of dividend

The Board of Directors proposes to the AGM that a dividend of EUR 0.30 per share be distributed for the year 2012.

The dividend would be paid to shareholders who on the record date of the dividend payment, 26 April 2013, are recorded in the shareholders' register maintained by Euroclear Finland Ltd. or in the separate register of shareholders maintained by Euroclear Sweden AB for Euroclear Sweden registered shares. Dividends payable for Euroclear Sweden registered shares will be forwarded by Euroclear Sweden AB and paid in Swedish krona. Dividends payable to ADR holders will be forwarded by Deutsche Bank Trust Company Americas and paid in US dollars.

The Board of Directors proposes to the AGM that the dividend be paid on 15 May 2013.

## Annual General Meeting

The Annual General Meeting (AGM) will be held at 16.00 (Finnish time) on Tuesday 23 April 2013 at Marina Congress Center, Katajanokanlaituri 6, Helsinki, Finland.

# Consolidated Financial Statements

## Consolidated Income Statement

| EUR million | Note | Year Ended 31 December 2012 | 2011 |
|---|---|---|---|
| **Sales** | 3 | **10 814.8** | **10 964.9** |
| Other operating income | 5 | 218.8 | 208.9 |
| Changes in inventories of finished goods and work in progress | | -6.9 | 31.7 |
| Change in net value of biological assets | 13 | -5.0 | -5.1 |
| Materials and services | | -6 962.2 | -6 998.5 |
| Freight and sales commissions | | -1 007.5 | -1 018.9 |
| Personnel expenses | 6 | -1 360.8 | -1 393.9 |
| Other operating expenses | 5 | -578.3 | -575.2 |
| Share of results of equity accounted investments | 14 | 107.7 | 118.0 |
| Depreciation, amortisation and impairment charges | 11 | -531.6 | -572.6 |
| **Operating Profit** | 3 | **689.0** | **759.3** |
| Financial income | 8 | 128.2 | 42.9 |
| Financial expense | 8 | -335.5 | -381.3 |
| **Profit before Tax** | | **481.7** | **420.9** |
| Income tax | 9 | 8.7 | -78.7 |
| **Net Profit for the Year** | | **490.4** | **342.2** |
| **Attributable to:** | | | |
| Owners of the Parent | 19 | 480.5 | 339.7 |
| Non-controlling Interests | 20 | 9.9 | 2.5 |
| **Net Profit for the Year** | | **490.4** | **342.2** |
| **Earnings per Share** | | | |
| Basic and diluted earnings per share, EUR | 33 | 0.61 | 0.43 |

## Consolidated Statement of Comprehensive Income

| EUR million | Note | Year Ended 31 December 2012 | 2011 |
|---|---|---|---|
| Net profit for the period | | 490.4 | 342.2 |
| **Other Comprehensive Income (OCI)** | | | |
| Actuarial losses on defined benefit plans | 21 | -167.3 | -55.8 |
| Available-for-sale financial assets | 15 | -177.6 | -240.5 |
| Currency and commodity hedges | 28 | 33.6 | -128.4 |
| Share of other comprehensive income of equity accounted investments | 28 | -4.2 | -19.4 |
| Currency translation movements on equity net investments (CTA) | 29 | -29.4 | -76.2 |
| Currency translation movements on non-controlling interests | 20 | -3.2 | - |
| Net investment hedges | 29 | -16.8 | 6.0 |
| Income tax relating to components of other comprehensive income | 9 | 29.6 | 40.8 |
| **Other Comprehensive Income, net of tax** | | **-335.3** | **-473.5** |
| **Total Comprehensive Income** | | **155.1** | **-131.3** |
| **Total Comprehensive Income Attributable to:** | | | |
| Owners of the Parent | | 148.4 | -133.8 |
| Non-controlling interests | 20 | 6.7 | 2.5 |
| | | **155.1** | **-131.3** |

The accompanying Notes are an integral part of these consolidated Financial Statements.

# Consolidated Statement of Financial Position

| EUR million | | Note | As at 31 December 2012 | 2011 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Fixed Assets and Other Non-current Investments** | | | | |
| Goodwill | O | 12 | 225.9 | 224.3 |
| Other intangible fixed assets | O | 12 | 44.6 | 57.8 |
| Property, plant and equipment | O | 12 | 5 048.7 | 4 942.5 |
| | | 12 | **5 319.2** | **5 224.6** |
| Biological assets | O | 13 | 221.7 | 212.6 |
| Emission rights | O | | 29.6 | 43.0 |
| Equity accounted investments | O | 14 | 1 965.1 | 1 913.1 |
| Available-for-sale: interest-bearing | I | 15 | 95.9 | 82.0 |
| Available-for-sale: operative | O | 15 | 450.6 | 640.2 |
| Non-current loan receivables | I | 18 | 134.2 | 125.3 |
| Deferred tax assets | T | 9 | 143.1 | 121.9 |
| Other non-current assets | O | 16 | 23.1 | 26.6 |
| | | | **8 382.5** | **8 389.3** |
| **Current Assets** | | | | |
| Inventories | O | 17 | 1 457.5 | 1 528.7 |
| Tax receivables | T | 9 | 18.5 | 6.2 |
| Current operative receivables | O | 18 | 1 688.2 | 1 654.6 |
| Interest-bearing receivables | I | 18 | 297.0 | 281.5 |
| Cash and cash equivalents | I | | 1 849.9 | 1 138.8 |
| | | | **5 311.1** | **4 609.8** |
| **Total Assets** | | | **13 693.6** | **12 999.1** |
| **EQUITY AND LIABILITIES** | | | | |
| **Equity Attributable to Owners of the Parent** | | | | |
| Share capital | | 19 | 1 342.2 | 1 342.2 |
| Share premium | | | 76.6 | 76.6 |
| Treasury shares | | 19 | -10.2 | -10.2 |
| Other comprehensive income | | 28 | 343.4 | 498.1 |
| Cumulative translation adjustment | | 29 | -10.1 | 32.0 |
| Invested non-restricted equity fund | | | 633.1 | 633.1 |
| Retained earnings | | | 2 929.0 | 2 961.2 |
| Net profit for the period | | | 480.5 | 339.7 |
| | | | **5 784.5** | **5 872.7** |
| Non-controlling Interests | | 20 | 91.5 | 87.1 |
| **Total Equity** | | | **5 876.0** | **5 959.8** |
| **Non-current Liabilities** | | | | |
| Post-employment benefit provisions | O | 21 | 461.6 | 333.1 |
| Other provisions | O | 23 | 142.0 | 147.7 |
| Deferred tax liabilities | T | 9 | 343.8 | 401.0 |
| Non-current debt | I | 27 | 4 341.3 | 3 339.4 |
| Other non-current operative liabilities | O | 24 | 11.7 | 31.9 |
| | | | **5 300.4** | **4 253.1** |
| **Current Liabilities** | | | | |
| Current portion of non-current debt | I | 27 | 181.0 | 250.0 |
| Interest-bearing liabilities | I | 27 | 607.0 | 779.5 |
| Bank overdrafts | I | 27 | 4.5 | 4.5 |
| Current operative liabilities | O | 24 | 1 685.6 | 1 678.7 |
| Tax liabilities | T | 9 | 39.1 | 73.5 |
| | | | **2 517.2** | **2 786.2** |
| **Total Equity and Liabilities** | | | **13 693.6** | **12 999.1** |

Items designated "O" comprise Operative Capital, items designated "I" comprise Interest-bearing Net Liabilities, items designated "T" comprise Net Tax Liabilities.
The accompanying Notes are an integral part of these Consolidated Financial Statements.

# Consolidated Cash Flow Statement

| EUR million | Note | Year Ended 31 December 2012 | 2011 |
|---|---|---|---|
| **Cash Flow from Operating Activities** | | | |
| Net profit for the year | | 490.4 | 342.2 |
| Result from the Statement of Other Comprehensive Income | | 33.7 | -127.3 |
| | | | |
| Adjustments and reversal of non-cash items: | | | |
| Taxes | 9 | -8.7 | 78.7 |
| Depreciation and impairment charges | 11 | 531.6 | 572.6 |
| Change in value of biological assets | 13 | 5.0 | 5.1 |
| Change in fair value of options and TRS | | -26.1 | 9.8 |
| Share of results of equity accounted investments | 14 | -107.7 | -118.0 |
| Profits and losses on sale of fixed assets and investments | 5 | 4.8 | -1.6 |
| Net financial items | 8 | 207.3 | 338.4 |
| Pension adjustment | | -18.3 | - |
| Dividends received from equity accounted investments | 14 | 102.0 | 24.1 |
| Interest received | | 16.8 | 23.6 |
| Interest paid | | -168.4 | -129.3 |
| Income received on interest-bearing securities | 8 | 0.1 | 0.2 |
| Other financial items, net | | -78.7 | -19.3 |
| Income taxes paid | 9 | -103.6 | -129.1 |
| Change in net working capital, net of businesses acquired or sold | | 55.4 | -173.3 |
| **Net Cash Provided by Operating Activities** | | **935.6** | **696.8** |
| | | | |
| **Cash Flow from Investing Activities** | | | |
| Acquisition of subsidiary shares and business operations, net of acquired cash | 4 | -11.3 | -25.0 |
| Acquisition of shares in equity accounted investments | 14 | -114.5 | -128.6 |
| Acquisition of available-for-sale investments | 15 | -0.3 | -0.6 |
| Capital expenditure | 3, 12 | -541.0 | -392.4 |
| Investment in biological assets | 13 | -19.7 | -17.2 |
| Proceeds from disposal of shares in equity accounted investments and equity repayment | 14 | 2.2 | - |
| Proceeds from disposal of available-for-sale investments | 15 | 0.5 | 1.0 |
| Proceeds from sale of fixed assets | 12 | 5.7 | 21.7 |
| Payment of/proceeds from non-current receivables, net | | -5.3 | -4.0 |
| **Net Cash Used in Investing Activities** | | **-683.7** | **-545.1** |
| | | | |
| **Cash Flow from Financing Activities** | | | |
| Proceeds from new long-term debt | | 1 471.5 | 61.7 |
| Repayment of long-term liabilities | | -570.7 | -83.3 |
| Change in current borrowings | | -179.3 | 131.2 |
| Dividends paid | | -236.6 | -197.2 |
| Equity injections less dividends to non-controlling interest | 20 | -2.5 | -3.6 |
| **Net Cash Provided by/Used in Financing Activities** | | **482.4** | **-91.2** |
| | | | |
| **Net Increase in Cash and Cash Equivalents** | | **734.3** | **60.5** |
| Translation adjustment | | -23.2 | -29.3 |
| Cash and cash equivalents at beginning of year | | 1 134.3 | 1 103.1 |
| **Net Cash and Cash Equivalents at Year End** | | **1 845.4** | **1 134.3** |
| | | | |
| **Cash and Cash Equivalents at Year End** | | **1 849.9** | **1 138.8** |
| **Bank Overdrafts at Year End** | | **-4.5** | **-4.5** |
| | | **1 845.4** | **1 134.3** |

The accompanying Notes are an integral part of these Consolidated Financial Statements.

# Consolidated Cash Flow Statement

## Supplemental Cash Flow Information

| | | Year Ended 31 December | |
|---|---|---|---|
| **EUR million** | **Note** | **2012** | **2011** |
| **Change in Net Working Capital consists of:** | | | |
| Change in inventories | | 90.2 | -32.7 |
| Change in interest-free receivables: | | | |
| Current | | 20.3 | -12.3 |
| Non-current | | 3.1 | 11.2 |
| Change in interest-free liabilities: | | | |
| Current | | 9.0 | -134.6 |
| Non-current | | -50.2 | -48.6 |
| Proceeds from/payment of short-term interest-bearing receivables | | -17.0 | 43.7 |
| **Change in Net Working Capital, Net of Businesses Acquired or Sold** | | **55.4** | **-173.3** |
| **Non-Cash Investing Activities** | | | |
| Total capital expenditure | | 536.6 | 436.1 |
| Amounts paid | | -541.0 | -392.4 |
| **Non-Cash Part of Additions to Fixed Assets** | | **-4.4** | **43.7** |
| **ACQUISITIONS** | | | |
| **Cash Flow on Acquisitions** | | | |
| Purchase consideration on acquisitions, cash part | 4 | 13.1 | 40.7 |
| Purchase consideration on acquisitions, non-cash part | 4 | - | 4.2 |
| Cash and cash equivalents in acquired companies, net of bank overdraft | 4 | -1.8 | -15.7 |
| Gain to retained earnings on non-controlling interest buy-outs | 4 | - | 0.8 |
| Payment concerning unfinished 2011 acquisition | | -4.3 | - |
| **Total Acquisition Value** | | **7.0** | **30.0** |
| **Acquired Net Assets** | | | |
| Operating working capital | | 8.5 | 13.1 |
| Operating fixed assets | 12 | 5.8 | 52.0 |
| Tax assets and liabilities | 9 | 0.6 | -4.6 |
| Interest-bearing assets and liabilities | | -5.0 | -5.4 |
| Non-controlling interest | 20 | -0.2 | -36.4 |
| Value of previously held equity interests | | -2.8 | - |
| **Total Net Assets Acquired** | | **6.9** | **18.7** |
| Goodwill | 12 | 0.1 | 11.3 |
| **Total Net Assets Acquired and Goodwill** | | **7.0** | **30.0** |

The accompanying Notes are an integral part of these Consolidated Financial Statements.

# Statement of Changes in Equity

| EUR million | Share Capital | Share Premium and Reserve Fund | Invested Non-Restricted Equity Fund | Treasury Shares | Step Acquisition Revaluation Surplus | Available for Sale Financial Assets | Currency and Commodity Hedges | OCI of Equity Accounted Investments | CTA and Net Investment Hedges | Retained Earnings | Attributable to Owners of the Parent | Non-controlling Interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 31 December 2010** | **1 342.2** | **76.6** | **633.1** | **-10.2** | **3.9** | **780.0** | **77.9** | **-9.8** | **103.7** | **3 205.5** | **6 202.9** | **51.8** | **6 254.7** |
| Profit for the period | - | - | - | - | - | - | - | - | - | 339.7 | 339.7 | 2.5 | 342.2 |
| OCI before tax | - | - | - | - | - | -240.5 | -128.4 | -19.4 | -70.2 | -55.8 | -514.3 | - | -514.3 |
| Income tax relating to components of OCI | - | - | - | - | - | 1.1 | 33.3 | - | -1.5 | 7.9 | 40.8 | - | 40.8 |
| Total Comprehensive Income | - | - | - | - | - | -239.4 | -95.1 | -19.4 | -71.7 | 291.8 | -133.8 | 2.5 | -131.3 |
| Dividend | - | - | - | - | - | - | - | - | - | -197.2 | -197.2 | -3.6 | -200.8 |
| Acquisitions | - | - | - | - | - | - | - | - | - | - | - | 37.2 | 37.2 |
| Gain on buy-out of non-controlling interest | - | - | - | - | - | - | - | - | - | 0.8 | 0.8 | -0.8 | - |
| **Balance at 31 December 2011** | **1 342.2** | **76.6** | **633.1** | **-10.2** | **3.9** | **540.6** | **-17.2** | **-29.2** | **32.0** | **3 300.9** | **5 872.7** | **87.1** | **5 959.8** |
| Profit for the period | - | - | - | - | - | - | - | - | - | 480.5 | 480.5 | 9.9 | 490.4 |
| OCI before tax | - | - | - | - | - | -177.6 | 33.6 | -4.2 | -46.2 | -167.3 | -361.7 | -3.2 | -364.9 |
| Income tax relating to components of OCI | - | - | - | - | - | -0.8 | -5.7 | - | 4.1 | 32.0 | 29.6 | - | 29.6 |
| Total Comprehensive Income | - | - | - | - | - | -178.4 | 27.9 | -4.2 | -42.1 | 345.2 | 148.4 | 6.7 | 155.1 |
| Dividend | - | - | - | - | - | - | - | - | - | -236.6 | -236.6 | -2.5 | -239.1 |
| Acquisitions | - | - | - | - | - | - | - | - | - | - | - | 0.2 | 0.2 |
| **Balance at 31 December 2012** | **1 342.2** | **76.6** | **633.1** | **-10.2** | **3.9** | **362.2** | **10.7** | **-33.4** | **-10.1** | **3 409.5** | **5 784.5** | **91.5** | **5 876.0** |

CTA = Cumulative Translation Adjustment
OCI = Other Comprehensive Income

# Notes to the Consolidated Financial Statements

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## Note 1 Accounting Principles

### Principal activities

Stora Enso Oyj ("the Company") is a Finnish limited liability company organised under the laws of the Republic of Finland and with its registered address at Kanavaranta 1, 00160 Helsinki. Its shares are currently listed on NASDAQ OMX Helsinki and Stockholm. The operations of Stora Enso Oyj and its subsidiaries (together "Stora Enso" or the "Group") are organised into the following business areas: Printing and Reading, Biomaterials, Building and Living, Renewable Packaging, and Other, which includes the Nordic forest equity accounted investments, Stora Enso's shareholding in Pohjolan Voima, operations supplying wood to the Nordic mills and Group shared services and administration. The Group's main market is Europe, with an expanding presence in Asia and South America.

These Financial Statements were authorised for issue by the Board of Directors on 5 February 2013.

### Basis of preparation

The Consolidated Financial Statements of Stora Enso Oyj have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, including International Accounting Standards (IAS) and Interpretations issued by the IFRS Interpretations Committee (IFRIC). The Consolidated Financial Statements of Stora Enso Oyj have been prepared under the historical cost convention except as disclosed in the accounting policies below. The consolidated financial statements are presented in euro, which is the parent company's functional currency.

### Amended standard adopted in 2012

- IFRS 7 Financial Instruments: Disclosure amendments enhancing disclosures about transfers of financial assets effective from 1 July 2011. These amendments are not relevant to the Group.

### New and amended standards and interpretations not yet effective in 2012

- IAS 1 Presentation of Financial Statements (amendment) effective for financial years starting from 1 July 2012 introduces changes to the presentation of items of other comprehensive income. The effects of this amendment on the Group financial statements are under investigation. The EU endorsed this amendment in June 2012.
- IAS 19 Employee benefits (amendment) effective from 1 January 2013 eliminates the 'corridor method', streamlines the presentation of changes in assets and liabilities arising from defined benefit plans and enhances the disclosure requirements arising from the standard. The amendment was issued in June 2011 with early adoption permitted. Stora Enso is not exercising the option of early adoption at the end of 2012. The effects of this amendment on the Group financial statements are under investigation. The EU endorsed this amendment in June 2012.
- IFRS 7 Financial Instruments: Disclosures Amendments enhancing disclosures about offsetting of financial assets and financial liabilities effective from 1 January 2013. The effects of this amendment on the Group financial statements are under investigation. The EU endorsed this amendment in December 2012.
- IAS 32 Financial Instruments: Presentation amendments clarify existing application issues relating to offsetting of financial assets and financial liabilities requirements. The effects of this amendment on the Group financial statements are under investigation. EU has endorsed this amendment in December 2012.
- IFRS 10 Consolidated Financial Statements effective from 1 January 2013 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The standard provides additional guidance on the process of determining possible control of an entity, especially in challenging cases. The effects of this new standard on the Group financial statements are under investigation. The EU endorsed this standard in December 2012.
- IFRS 11 Joint Arrangements effective from 1 January 2013 introduces core principles for determining the type of joint arrangement in which the party to the joint arrangement is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement. The effects of this new standard on the Group financial statements are under investigation. The EU endorsed this standard in December 2012.
- IFRS 12 Disclosure of Interests in Other Entities effective from 1 January 2013 requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with its interests in other entities as well as the effects of the interests on the financial position, performance and cash flow of the entity. The effects of this new standard on the Group financial statements are under investigation. The EU endorsed this standard in December 2012.

- IFRS 13 Fair Value Measurement effective from 1 January 2013 establishes the definition of fair value and introduces a single IFRS framework for measuring fair value while seeking to increase consistency and comparability by requiring disclosures about fair value measurements applied in the financial statements of an entity. The effects of this new standard on the Group financial statements are under investigation. The EU endorsed this standard in December 2012.
- IAS 12 Income taxes (amendment) effective from 1 January 2012 provides additional regulation on deferred tax in the case of recovery of underlying assets. The amendment is not relevant to the Group. The EU endorsed this amendment in December 2012.
- IAS 27 Consolidated and Separate Financial Statements effective from 1 January 2013 was reissued and consolidation requirements previously stated in IAS 27 Consolidated and Separate Financial Statements have been revised and stated in IFRS 10 Consolidated Financial Statements. The effects of the changes on the Group financial statements are under investigation. The EU endorsed this change in December 2012.
- IAS 28 Investments in Associates and Joint Ventures effective from 1 January 2013 supersedes IAS 28 Investments in Associates and provides consequential amendments to the standard in response to a new standard IFRS 11 Joint Arrangements issued in 12 May 2011. The effects of the changes on the Group financial statements are under investigation. The EU endorsed this change in December 2012.
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine effective from 1 January 2013 introduces accounting treatment for stripping costs arising in the mining industry. The interpretation is not relevant to the Group. The EU endorsed this interpretation in December 2012.

## New standard not yet effective and not yet endorsed by the EU in 2012

- IFRS 9 Financial Instruments effective from 1 January 2015, to be applied on a modified retrospective basis, introduces new requirements for classifying and measuring financial assets. The standard also has an amendment to include requirements for the classification and measurement of financial liabilities and for derecognition. Debt instruments meeting both a business model test and a cash flow characteristics test are measured at amortised cost. The use of fair value is optional in some limited circumstances. Investments in equity can be designated as fair value through other comprehensive income with only dividends recognised in profit or loss. All other instruments are measured at fair value with changes recognised in profit or loss. The effects of this new standard on the Group financial statements are under investigation.

## Consolidation principles

The Consolidated Financial Statements include the parent company, Stora Enso Oyj, and all companies in which it holds, directly or indirectly, over 50% of the voting rights. The Financial Statements of companies that Stora Enso controls through management agreements with majority shareholders, but in which Stora Enso holds less than 50% of the voting rights are also consolidated. The existence and effect of potential voting rights that are currently exercisable or convertible are also considered when assessing whether an entity is consolidated. The principal subsidiaries are listed in Note 31 Principal Subsidiaries in 2012.

Associated companies over which Stora Enso exercises significant influence and in which the Group generally holds between 20% and 50% of voting rights are accounted for using the equity method, which involves recognising in the Income Statement the Group's share of the equity accounted investment's profit or loss for the year less any impaired goodwill. These companies are undertakings in which the Group has significant influence, but which it does not control; the most significant of such companies are listed in Note 14 Equity Accounted Investments. The Group's interest in an associated company is carried in the Consolidated Statement of Financial Position at an amount that reflects its share of the net assets of the associate together with any remaining goodwill on acquisition. When the Group share of losses exceeds the carrying amount of an investment, the carrying amount is reduced to nil and any recognition of further losses ceases unless the Group is obliged to satisfy obligations of the investee that it has guaranteed or to which it is otherwise committed.

Joint ventures that Stora Enso jointly controls with other third parties are also accounted for using the equity method as described above; the most significant of such companies are listed in Note 14 Equity Accounted Investments.

Acquired companies are accounted for under the purchase method whereby they are included in the Consolidated Financial Statements from their acquisition date, whereas, conversely, divestments are included up to their date of sale.

All intercompany transactions, receivables, liabilities and unrealised profits, as well as intragroup profit distributions, are eliminated. Accounting policies for subsidiaries and all equity accounted investments are adjusted where necessary to ensure consistency with the policies adopted by Stora Enso. Non-controlling interests are presented as a separate component of equity.

## Non-controlling interests

Non-controlling interests are presented within the equity of the Group in the Statement of Financial Position. The proportionate shares of profit or loss attributable to non-controlling interests and to equity holders of the parent company are presented in the Income Statement after the profit

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33

for the period. Transactions between non-controlling interests and Group shareholders are transactions within equity and are thus shown in the Statement of Changes in Equity and Note 20 Non-Controlling Interests. The measurement type of non-controlling interests is decided separately for each acquisition.

## Segment information

The organisational structure of Stora Enso in described in Note 3 Segment Information. The Group's key non-IFRS performance metric is Operational EBIT, which is used to both evaluate the performance of its operating segments and to steer allocation of resources to them. Operational EBIT comprises the operating profit excluding non-recurring items and fair valuations from the segments and Stora Enso's share of the operating profit of equity accounted investments (EAI) excluding non-recurring items and fair valuations.

Non-recurring items are exceptional transactions that are not related to normal business operations. The most common non-recurring items are capital gains, additional write-downs or reversals of write-downs, provisions for planned restructuring and penalties. Non-recurring items are normally specified individually if they exceed one cent per share.

Fair valuations and non-operational items include equity incentive schemes, synthetic options net of realised and open hedges, $CO_2$ emission rights, valuations of biological assets related to forest assets in EAI and the Group's share of tax and net financial items of EAI.

## Foreign currency transactions

Transactions in foreign currencies are recorded at the rate of exchange prevailing at the transaction date, but at the end of the month, foreign-currency-denominated receivables and liabilities are translated using the month-end exchange rate. Foreign exchange differences for operating items are recorded in the appropriate income statement account within operating profit, and, for financial assets and liabilities, are entered in the financial items of the Income Statement, except when deferred in equity as qualifying net investment hedges. Translation differences on non-monetary financial assets, such as equities classified as Available-for-Sale, are included in equity.

## Foreign currency translations – subsidiaries

The Income Statements of subsidiaries with functional and presentational currencies other than the euro are translated into the Group reporting currency using the average exchange rates for the year, whereas the Statements of Financial Position of such subsidiaries are translated using the exchange rates at the reporting date. Exchange differences arising from the retranslation of the net investments in foreign entities that are non-euro foreign subsidiaries or equity accounted investments, and of financial instruments that are designated as and are hedges of such investments, are recorded directly in shareholders' equity in the Cumulative Translation Adjustment (CTA), as shown in the Consolidated Statement of Comprehensive Income and Note 29 Cumulative Translation Adjustments and Equity Hedging. The cumulative translation differences of divestments and liquidations are combined with their gain or loss on disposal. The CTA is also recycled in the Income Statement upon the repayment of share capital, return of investment and any partial disposal of a business unit.

## Trade receivables

Trade receivables are recognised initially at fair value and subsequently at their anticipated realisable value, an estimate being made for doubtful receivables based on an objective review of all outstanding amounts at the year end. Losses relating to doubtful receivables are recorded in the Income Statement within Other Operating Expenses. Trade Receivables are included in current assets under Current Operative Receivables.

## Cash and cash equivalents

Cash and cash equivalents comprise cash-in-hand, deposits held at call with banks and other liquid investments with original maturity of less than three months. Bank overdrafts are included in current liabilities.

## Investments

The Group classifies its investments in marketable debt and equity securities, and investments in unlisted equity securities into three categories being trading, held-to-maturity and available-for-sale. Investments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and are therefore fair valued through the Income Statement and presented as current assets. Investments with fixed maturity, which management has the intent and ability to hold to maturity, are classified as held-to-maturity, to be disclosed in non-current assets. Investments in listed and unlisted shares as well as payment-in-kind (PIK) notes are classified as available-for-sale. Management determines the classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

Available-for-sale investments are initially recognised at fair value and subsequent gains and losses are booked to equity in Other Comprehensive Income (OCI) and, when they are sold, the accumulated fair value adjustments are then included in the Income Statement. The values of all investments for which the market value has been below the carrying value for more than a year are reviewed at least annually for impairment. If management believes that the diminution of value is permanent, then that part of the fair value reserve (OCI) represented by the impairment is transferred to the Income Statement.

## Loan receivables

Loan receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are recorded initially at fair value and are subject to regular and systematic review as to collectability. If any loan receivable is estimated to be unrecoverable, a provision is made for the shortfall between the carrying amount and the present value of the expected cash flows. Interest income on loan receivables is included in financial income. Loan receivables with a maturity of less than 12 months are included in current assets under Interest-bearing Receivables and those with maturities greater than 12 months, in Non-current Loan Receivables.

## Debt

Debt is recognised initially at fair value, net of transaction costs incurred. In subsequent periods, it is stated at amortised cost using the effective interest method; any difference between proceeds, net of transaction costs, and redemption value is recognised in the Income Statement over the period of the borrowings. Interest expenses are accrued for and recorded in the Income Statement for each period.

Debt with an original maturity greater than 12 months is classified as Non-current Debt in the Statement of Financial Position, though repayments falling due within 12 months are presented in Current Liabilities under the Current Portion of Non-current Debt. Short-term commercial paper, bank and other interest-bearing borrowings for which the original maturity is less than 12 months are presented in Current Liabilities under Interest-bearing Liabilities.

## Derivative financial instruments and hedging

Financial derivatives are initially recognised in the Statement of Financial Position at fair value and subsequently measured at their fair value at each reporting date, though the method of recognising the resulting gains or losses is dependent on the nature of the item being hedged. When derivative contracts are entered into, the Group designates them as either hedges of the exposure to changes in the fair value of recognised assets or liabilities (fair value hedges), hedges of forecast transactions or firm commitments (cash flow hedges), hedges of net investments in foreign entities or as derivative financial instruments not meeting the hedge accounting criteria in accordance with IAS 39.

Changes in the fair value of derivatives designated and qualifying as fair value hedges, and which are highly effective, are recorded in the Income Statement, along with any changes in the fair value of the hedged assets or liabilities attributable to the hedged risk.

Changes in the fair value of derivatives designated and qualifying as cash flow hedges, and which are effective, are recognised in equity in the Hedging Reserve within OCI, the movements of which are disclosed in the Consolidated Statement of Comprehensive Income. The cumulative gain or loss of a derivative deferred in equity is transferred to the Income Statement and classified as income or expense in the same period in which the hedged item affects the Income Statement.

When a hedging instrument expires, or is sold, terminated or exercised, or has its designation revoked or no longer meets the criteria for hedge accounting under IAS 39, any cumulative gain or loss deferred in equity at that time remains in equity and is accounted for as an adjustment to income or expense when the committed or forecast transaction is ultimately recognised in the Income Statement. However, if the forecast transaction is no longer expected to occur, the cumulative gain or loss reported in equity from the period when the hedge was effective is recognised in the Income Statement immediately.

Certain derivative transactions, while providing effective economic hedges under Group risk management policies, do not qualify for hedge accounting under the specific rules in IAS 39 and therefore changes in the fair value of such non-qualifying hedge instruments together with any ineffectiveness of hedge-accounted instruments are accounted for at fair value through the Income Statement. Fair value changes of derivative instruments relating to sales, purchases and staff benefits are presented under operating profit and specified in Note 28 Derivatives and in Note 6 Staff Costs. Fair value changes from all other derivatives are recognised in the Income Statement under financial items.

Hedges of net investments in foreign entities are accounted for similarly to cash flow hedges, the Group using either derivatives or borrowings for this purpose. If the hedging instrument is a derivative, any gain or loss thereon relating to the effective portion of the hedge is recognised in equity in CTA, as disclosed in the Consolidated Statement of Comprehensive Income; the gain or loss relating to the ineffective portion is immediately recognised in the Income Statement. In addition, exchange gains and losses arising on the translation of a borrowing that hedges such an investment are also recognised in CTA, any ineffective portion being immediately recognised in the Income Statement.

At the inception of a transaction the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all financial instruments designated as hedges to specific assets and liabilities or to specific firm commitments or forecast transactions. The Group also documents its assessment, both at the hedge inception and on an ongoing basis, whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair value or cash flows of hedged items.

## Fair value of financial instruments

The fair values of publicly traded derivatives, along with trading and available-for-sale securities, are based on quoted market prices at the reporting date; the fair values of interest rate swaps are calculated as the present value of the estimated future cash flows and the fair values of foreign exchange forward contracts are determined using forward exchange rates at the reporting date.

In assessing the fair values of non-traded derivatives and other financial instruments, the Group uses a variety of methods and makes assumptions based on market conditions at each reporting date. Quoted market prices or dealer quotes for identical or similar instruments are used for non-current debt. Other techniques, such as option pricing models and estimated discounted value of future cash flows, are used to determine fair values for the remaining financial instruments. The face values, less any estimated credit adjustments, for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair values of financial liabilities for disclosure purposes are estimated by discounting the future contractual cash flows at the current market interest rates available to the Group for similar financial instruments.

Purchases and sales of financial instruments are recognised on the trade date, which is the date on which the Group commits to purchasing or selling the financial instrument. Financial instruments are derecognised when the rights to receive or the cash flows from the financial instruments have expired or have been transferred and the Group has transferred substantially all risks, rewards and obligations of the ownership of the financial instrument asset or liability.

## Revenue recognition

Sales comprise products, raw materials and services less indirect sales tax and discounts, and are adjusted for exchange differences on sales in foreign currency. Sales are recognised after Stora Enso has transferred the risks and rewards of ownership to the buyer and the Group retains neither a continuing right to dispose of the goods, nor effective control of those goods; usually, this means that sales are recorded upon delivery of goods to customers in accordance with agreed terms of delivery.

Stora Enso terms of delivery are based on Incoterms 2010, which are the official rules for the interpretation of trade terms as issued by the International Chamber of Commerce (ICC). The main categories of terms covering Group sales are:

- “D” terms, under which the Group is obliged to deliver the goods to the buyer at the agreed place in the manner specified in the chosen rule, in which case the Point of Sale is the moment of delivery to the buyer.
- “C” terms, whereby the Group arranges and pays for the external carriage and certain other costs, though the Group ceases to be responsible for the goods once they have been handed over to the carrier in accordance with the relevant term. The Point of Sale is thus the handing over of the goods to the carrier contracted by the seller for the carriage to the agreed destination.
- “F” terms, being where the buyer arranges and pays for the carriage, thus the Point of Sale is the handing over of goods to the carrier contracted by the buyer at the agreed point.

Where local rules may result in invoices being raised in advance of the above, the effect of this revenue advancement is quantified and an adjustment is made for it.

Revenues from services are recorded when the service has been performed.

## Shipping and handling costs

When Stora Enso is responsible for arranging transport for its sales, such costs are not billed separately but are included in revenue in the value of the goods billed to customers; the shipping costs incurred are shown in cost of sales.

## Research and development

Research costs are expensed as incurred in Other Operating Expenses in the Consolidated Income Statement. Development costs are also expensed as incurred unless it is probable that future economic benefits will flow to the Group, in which case they are capitalised as intangible assets and depreciated over the period of the income streams.

## Computer software development costs

The cost of development or acquisition of new software clearly associated with an identifiable and unique product that will be controlled by the Group and has probable benefit exceeding its cost beyond one year is recognised as an intangible asset and amortised over the expected useful life of the software. Website costs are expensed as incurred.

## Environmental remediation costs

Environmental expenditures resulting from the remediation of an existing condition caused by past operations, and which do not contribute to current or future revenues, are expensed as incurred. Environmental liabilities are recorded when it is probable, based on current interpretations of environmental laws and regulations, that a present obligation has arisen and the amount of such liability can be reliably estimated.

## Discontinued operations and assets held for sale

A discontinued operation represents a separate major line of business, or geographical area, for which the assets less liabilities and net financial results may be distinguished physically, operationally and for financial reporting purposes, which has been disposed of or is classified as Held for Sale. An asset is classified as such when it is highly probable that the carrying amount of the asset will be recovered through a sale transaction rather than continuing use.

## Income taxes

The Group income tax expense/benefit includes taxes of Group companies based on taxable profit/loss for the period, together with tax adjustments for previous periods and the change in deferred income taxes.

Deferred income taxes are provided using the liability method, as measured with enacted, or substantially enacted, tax rates, to reflect the net tax effects of all temporary differences between the tax bases and the accounting bases of assets and liabilities. No deferred tax is recognised for the initial recognition of goodwill and the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction it affects neither accounting profit nor taxable profit. Deferred tax assets reduce income taxes payable on taxable income in future years. The deferred tax assets, whether arising from temporary differences or from tax losses, are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be utilised.

## Goodwill

Goodwill represents future economic benefits arising from assets that are not capable of being individually identified and separately recognised by the Group on an acquisition. Goodwill is computed as the excess of the cost of an acquisition over the fair value of the Group’s share of the fair value of net assets of the acquired subsidiary at the acquisition date and is allocated to those groups of cash generating units expected to benefit from the acquisition for the purpose of impairment testing. In compliance with IFRS 3, the cost of an acquisition is equal to the sum of the consideration transferred, the value of the non-controlling interest in the acquisition and the fair value of the previously held interest in the acquired subsidiary. Goodwill arising on the acquisition of non-euro foreign entities is treated as an asset of the foreign entity denominated in the local currency and translated at the closing rate.

Goodwill is not amortised but tested for impairment on an annual basis, or more frequently if there is an indication of impairment. Gains and losses on the disposal of a Group entity include any goodwill relating to the entity sold.

Goodwill arising upon the acquisition of an equity accounted investment is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group’s share of the net fair value over the cost of the acquisition, after reassessment, is recognised immediately in the income statement.

## Intangible assets

Intangible assets are stated at historical cost and amortised on a straight-line basis over their expected useful lives, which usually vary from 3 to 10 years and up to 20 years for patents. Intangible items acquired must be recognised as assets separately from goodwill if they meet the definition of an asset, are either separable or arise from contractual or other legal rights, and their fair value can be measured reliably.

Intangible assets recognised separately from goodwill in acquisitions consist of marketing and customer-related or contract and technology-based intangible assets. Typical marketing and customer-related assets are trademarks, trade names, service marks, collective marks, certification marks, customer lists, order or production backlogs, customer contracts and the related customer relationships. The contract and technology-based intangible assets are normally licensing and royalty agreements or patented technology and trade secrets such as confidential formulas, processes or recipes. The fair value determination of customer contracts and related relationships is derived from expected retention rates and cash flow over the customers’ remaining estimated life time. The value of trademarks is derived from discounted cash flow analysis using the relief from royalty method.

## Property, plant and equipment

Property, plant and equipment acquired by Group companies are stated at historical cost, augmented where appropriate by asset retirement costs. Assets arising on the acquisition of a new subsidiary are stated at fair value at the date of acquisition. Depreciation is computed on a straight-line basis, as adjusted for any impairment and disposal charges. The Statement of Financial Position value represents cost less accumulated depreciation and any impairment charges. Interest costs on borrowings to finance the construction of these assets are capitalised as part of the cost during the construction period.

Land is not depreciated as it is deemed to have an indefinite life, but otherwise depreciation is based on the following expected useful lives:

| Asset Class | Depreciation Years |
|---|---|
| Buildings, industrial | 10–50 |
| Buildings, office & residential | 20–50 |
| Groundwood mills | 15–20 |
| Hydroelectric power | 40 |
| Paper, board and pulp mills, main machines | 20 |
| Heavy machinery | 10–20 |
| Converting factories | 10–15 |
| Sawmills | 10–15 |
| Computers | 3–5 |
| Vehicles | 5 |
| Office equipment | 3–5 |
| Railway, harbours | 20–25 |
| Forest roads | 10–35 |
| Roads, fields, bridges | 15–20 |
| Intangible assets | 3–20 |

Ordinary maintenance and repair charges are expensed as incurred, but the costs of significant renewals and improvements are capitalised and depreciated over the remaining useful lives of the related assets. Retirements, sales and disposals of property, plant and equipment are recorded by deducting the cost and accumulated depreciation from the accounting records with any resulting terminal depreciation adjustments reflected in impairment charges in the Income Statement. Capital gains are shown in Other Operating Income.

Spare parts are accounted for as property, plant and equipment if they are major and used over more than one period, or if they are used only in connection with an item of property, plant and equipment. In all other cases, spare parts are carried as inventory and recognised in profit or loss as consumed.

## Impairment

The carrying amounts of most fixed assets are reviewed at each reporting date to determine whether there is any indication of impairment, whereas goodwill is tested annually. If any such indication exists, the recoverable amount is estimated as the higher of the net selling price and the value in use, with an impairment loss being recognised whenever the carrying amount exceeds the recoverable amount.

A previously recognised impairment loss on property, plant and equipment is reversed if there has been a change in the estimates used to determine the recoverable amount, however, not to an extent higher than the carrying amount that would have been determined had no impairment loss been recognised in prior years. For goodwill, however, a recognised impairment loss is not reversed.

Whilst intangible assets and property, plant and equipment are subject to impairment testing at the cash generating unit (CGU) level, goodwill is subject to impairment testing at the level of CGU or groups of CGUs, which represents the lowest level within the Group that goodwill is monitored for internal management purposes.

## Leases

Leases of property, plant and equipment under which the Group has substantially all the rewards and risks of ownership are classified as finance leases. All other leases are classified as operating leases. Finance leases are capitalised at the commencement of the lease at the lower of the fair value of the leased property or the estimated present value of the minimum lease payments. Each lease payment is allocated between the capital liability and finance charges so as to achieve a constant interest rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in interest-bearing liabilities with the interest element of the finance charge being taken to the Income Statement over the lease period. Property, plant and equipment acquired under finance leasing contracts are depreciated over the lesser of the useful life of the asset or lease period.

Payments made under operating leases are expensed on a straight-line basis over the lease periods. When an operating lease is terminated before the expiry of the lease period, any obligatory payment to the lessor by way of penalty is recognised as an expense in the period in which termination takes place. Lease termination benefits are recognised on a discounted basis.

## Government grants

Government grants relating to the purchase of property, plant and equipment are deducted from the carrying value of the asset, the net cost being capitalised. Other government grants are recognised as income on a systematic basis over the periods necessary to match them with the related costs which they were intended to compensate.

## Biological assets

IAS 41 Agriculture requires that biological assets, such as standing trees, are shown in the Consolidated Statement of Financial Position at market value. Group forests are thus accounted for at fair value less estimated point-of-sale costs at harvest, there being a presumption that fair values can be measured for these assets. Stora Enso also ensures that the Group's share of the valuation of forest holdings in equity accounted investments is consistent with Group accounting policies.

The valuation of forest assets is based on discounted cash flow models whereby the fair value of the biological assets is calculated using cash flows from continuous operations, that is, based on sustainable forest management plans taking into account growth potential. The

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yearly harvest from the forecast tree growth is multiplied by actual wood prices and the cost of fertiliser and harvesting is then deducted. The fair value of the biological asset is measured as the present value of the harvest from one growth cycle based on the productive forestland, taking into consideration environmental restrictions and other reservations.

Fair value is deemed to approximate the cost when little biological transformation has taken place or the impact of the transformation on price is not expected to be material, which varies according to the location and species of the assets.

## Emission rights and trading

The Group's participation in the European Emissions Trading Scheme, in which it has been allocated allowances to emit a fixed tonnage of carbon dioxide in a fixed period of time, gives rise to an intangible asset for the allowances, a government grant and a liability for the obligation to deliver allowances equal to the emissions that have been made during the compliance period. Emission allowances recorded as intangible assets are recognised when the Group is able to exercise control and are measured at fair value at the date of initial recognition. If the market value of emission allowances falls significantly below the carrying amount, and the decrease is considered permanent, then an impairment charge is booked for allowances which the Group will not use internally. The liability to deliver allowances is recognised based on actual emissions; this liability will be settled using allowances on hand, measured at the carrying amount of those allowances, with any excess emissions being measured at the market value of the allowances at the period end.

In the Income Statement, the Group will expense, under Materials and Services, emissions made at the fair value of the rights at their grant date, together with purchased emission rights at their purchase price. Such costs will be offset under Other Operating Income by the income from the original grant of the rights used at their fair value at the grant date, together with income from the release or sale of surplus rights. The Income Statement will thus be neutral in respect of all rights consumed that were within the original grant. Any net effect represents the costs of purchasing additional rights to cover excess emissions, the sale of unused rights or the impairment of allowances not required for internal use.

## Inventories

Inventories are reported at the lower of cost and net realisable value with cost being determined by the first-in first-out (FIFO) method or, alternatively, weighted average cost where it approximates FIFO. The cost of finished goods and work in progress comprises raw material, direct labour, depreciation, other direct costs and related production overhead but excludes interest expenses. Net realisable value is the estimated selling price in the ordinary course of business, less costs of completion and sale.

Where market conditions result in the manufacturing costs of a product exceeding its net realisable value, a valuation allowance is made. Valuation allowances are also made for old, slow moving and obsolete finished goods and spare parts. Such valuation allowances are detailed in Note 10 Valuation Allowances and Note 17 Inventories, and in the Statement of Financial Position are deducted from the carrying value of the inventories.

## Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Environmental provisions for site reinstatement are made when a project starts production, with the capitalised cost of the provision being depreciated over the useful life of the asset. Provisions are discounted back to their current net present value if the effect of the time value of money is material.

A restructuring provision is recognised in the period in which the Group becomes legally or constructively committed to the plan. The relevant costs are those that are incremental to, or incurred as a direct result of, the exit plan, are the result of a continuing contractual obligation with no ongoing economic benefit, or represent a penalty incurred to cancel the obligation.

## Employee benefits

The Group operates a number of defined benefit and defined contribution plans throughout the world, the assets of which are generally held in separate trustee administered funds. Such pension and post-retirement plans are generally funded by payments from employees and by the relevant Group companies, taking into account the recommendations of independent qualified actuaries. Group contributions to the defined contribution pension plans are charged to the Income Statement in the year to which they relate.

For defined benefit plans, accounting values are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the Income Statement so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries who carry out a full valuation of the plan every year. The pension obligation is measured as the present value of estimated future cash outflows using interest rates of highly rated corporate bonds or government securities, as appropriate, that match the currency and expected duration of the related liability.

The Group immediately recognises all actuarial gains and losses arising from defined benefit plans directly in equity, as disclosed in its Statement of Comprehensive Income. Past service costs are identified at the time of any plan amendments, however, and where vested, are shown in the Income Statement, whereas unvested amounts are amortised systematically over the vesting period. In the Group Statement of Financial Position, the full liability for all plan deficits is recorded, as adjusted for any past service costs still to be amortised.

## Executive share options and share awards

The costs of all employee-related share-based payments are charged to the Income Statement as personnel expenses over the vesting period. The synthetic option programmes are hedged by Total Return Swaps (TRS) which are settled with cash payments, allowing the Company to receive cash compensation to partially offset any change in the share price between the grant and settlement dates.

The fair value of employee services received in exchange for cash-settled options is recognised at the fair value of the liability incurred and expensed rateably over the vesting period. The liability is remeasured at each reporting date to its fair value using estimates of the number of options that are expected to become exercisable and the latest fair valuations using the Black and Scholes model, with all changes recognised immediately in the Income Statement.

The fair value of employee services received in exchange for cash-settled share awards is recognised at the fair value of the liability incurred and expensed rateably over the vesting period. The liability is remeasured at each reporting date to its fair value using estimates of the number of share awards that are expected to be issued and the latest fair valuations by using the Stora Enso R share closing price, with all changes recognised immediately in the Income Statement.

## Earnings per share

Basic earnings per share, applicable to owners of the parent, is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Group and held as treasury shares. Diluted earnings per share are computed by applying the “treasury stock” method, under which earnings per share data are computed as if the warrants and options were exercised at the beginning of the period, or if later, on issue and as if the funds obtained thereby were used to purchase common stock at the average market price during the period. In addition to the weighted average number of shares outstanding, the denominator includes the incremental shares obtained through the assumed exercise of the warrants and options.

The assumption of exercise is not reflected in earnings per share when the exercise price of the options exceeds the average market price of the common stock during the period. The options have a dilutive effect only when the average market price of the common stock during the period exceeds the exercise price of the options.

## Dividend and capital repayments

Any dividend or capital repayment proposed by the Board is not deducted from distributable shareholders’ equity until approved by the shareholders at the Annual General Meeting.

# Note 2 Critical Accounting Estimates and Judgements

## Use of estimates

The preparation of Consolidated Financial Statements conforming to IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the dates of the Financial Statements and the reported amounts of revenues and expenses during the period. The estimates are based on historical experience and various other assumptions that are believed to be reasonable, though actual results and timing could differ from the estimates. Management believes that the accounting policies below represent those matters requiring the exercise of judgement where a different opinion could result in the greatest changes to reported results.

## Fixed assets

For material fixed assets in an acquisition, an external advisor makes a fair valuation of the acquired fixed assets and assists in determining their remaining useful lives. Management believes that the assigned values and useful lives, as well as the underlying assumptions, are reasonable, though different assumptions and assigned lives could have a significant impact on the reported amounts.

The carrying amounts of fixed assets are reviewed at each reporting date or whenever events or changes in circumstances indicate that the carrying amount of an asset may be impaired. The recoverable amount of an asset is estimated as the higher of fair value less cost to sell and the value in use, with an impairment charge being recognised whenever the carrying amount exceeds the recoverable amount. The value in use is calculated using a discounted cash flow model which is most sensitive to the discount rate as well as the expected future cash flows. The key assumptions used in the impairment testing, including sensitivity analysis, are explained further in Note 11 Depreciation and Fixed Asset Impairment Charges.

## Goodwill

Goodwill is tested by Cash Generating Unit (CGU) or by group of CGUs at least on an annual basis and any impairment is measured using the discounted cash flow valuation method. This method uses future projections of cash flows from each of the reporting units in a CGU or group of CGUs and includes, among other estimates, projections of future product pricing, production levels, product costs, market supply and demand, projected maintenance capital expenditures and an assumption of the weighted average cost of capital. A pre-tax discount rate used for the net present value calculation of projected cash flows reflects the weighted average cost of capital.

The Group has evaluated the most sensitive estimates which when changed could have a material effect on the fair value of the assets or goodwill and therefore could lead to an impairment. These estimates are expected sales prices of the products, expected inflation rate of the product costs and discount rate. The key assumptions used in the impairment testing, including sensitivity analysis, are explained further in Note 11 Depreciation and Fixed Asset Impairment Charges.

## Fair value of financial instruments

Where the fair value of financial assets and liabilities cannot be derived directly from publicly quoted market prices, other valuation techniques such as discounted cash flow models, transaction multiples, the Black and Scholes model and the Gordon model are employed. The key judgements include future cash flows, credit risk, volatility and changes in assumptions about these factors which could affect the reported fair value of the financial instruments. Investments in debt and equity securities of unlisted entities, such as Pohjolan Voima Oy (PVO), represent a significant portion of the Group's assets and require significant management judgement, as explained in more detail in Notes 15 Available-for-Sale Investments and 25 Financial Risk Management.

## Income taxes

Tax assets and liabilities are reviewed on a periodic basis and balances are adjusted as appropriate. Management considers that adequate provision has been made for future tax consequences based upon current facts, circumstances and tax law. However, should any tax positions be challenged and not prevail, different outcomes could result and have a significant impact on the amounts reported in the consolidated financial statements.

## Post-retirement benefits

The determination of the Group pension obligation and expense is subject to the selection of certain assumptions used by actuaries in calculating such amounts, including, among others, the discount rate, the expected rate of return on plan assets, the annual rate of increase in future compensation levels and estimated lifespans. Amounts charged in the Income Statement are determined by independent actuaries, however, where actual results differ from the initial estimates, together with the effect of any change in assumptions or other factors, these differences are recorded directly in equity, as disclosed in the Statement of Comprehensive Income. See Note 21 Post-Employment Benefits for detailed information on the assumptions used in the pension liability calculations.

## Biological assets

Most of the Group's interests in biological assets are held in equity accounted investment companies, though there are some smaller holdings owned directly as well. Biological assets, in the form of free standing trees, are accounted for under IAS 41, which requires that the assets be measured at fair value less costs to sell. Fair value is determined using discounted cash flows from continuous operations based on sustainable forest management plans taking into account the growth potential of one cycle. These discounted cash flows require estimates of growth, harvest, sales price and costs, and changes in these premises are included in the Consolidated Income Statement, for directly owned interests, on the line for Change in Net Value of Biological Assets and, for those assets shown in the Consolidated Statement of Financial Position of Equity Accounted Investments, on the line for Share of Results of Equity Accounted Investments. It is therefore important that the management of both the Group and the Equity Accounted Investments make appropriate estimates of future price levels and trends for sales and costs, and undertake regular surveys of the forest to establish the volumes of wood available for cutting and their current growth rates.

## Environmental provisions

The Group has made provisions for known environmental liabilities based on management's best estimate of the remediation costs. There is uncertainty regarding the timing and amount of these costs and therefore the final liability could differ significantly from the original estimate.

# Note 3 Segment Information

In 2011 the organisational structure of Stora Enso comprised four main Business Areas: Packaging Business Area (comprising the Consumer Board and Industrial Packaging reportable segments), Publication Paper Business Area (comprising the Newsprint and Book Paper and Magazine Paper reportable segments), Fine Paper Business Area and Wood Products Business Area.

In January 2012 Stora Enso announced that it was renewing its Business Area and Reporting Segment structure. With the new Business Area structure Stora Enso wants to increase the transparency of the pulp business and show the different nature and focus of the different businesses. The paper reporting segments Newsprint and Book Paper, Magazine Paper and Fine Paper were combined into one Business Area and Reporting Segment called Printing and Reading. The reporting segments Consumer Board and Industrial Packaging, together with the plantations in Guangxi in China, formed the Renewable Packaging Business Area and Reporting Segment. A new Business Area and Reporting Segment called Biomaterials was established comprising mainly the Company's joint-venture pulp mills, stand-alone pulp mills and tree plantations. The Wood Products Business Area was renamed as Building and Living. The historical figures have been restated to be in accordance with the new Business Area and Reportable Segments structure. The first financial report according to the new reporting segment structure was first quarter 2012 Interim Review.

In 2012 the organisation and the reportable segments were:

Business Areas and Reportable Segments
- Printing and Reading
- Biomaterials
- Building and Living
- Renewable Packaging
- Other

The activities of the Reportable Segments are:

## Printing and Reading

Printing and Reading's wide offering serves publishers, advertisers, printing houses, merchants, office equipment manufacturers and office suppliers, among others. Printing and Reading produces newsprint, SC paper, coated paper grades and office paper.

## Biomaterials

Biomaterials offers a variety of pulp grades to meet the demands of paper, board and tissue producers. Pulp is an excellent raw material: it is made from renewable resources in a sustainable manner, and has many different uses. Biomaterials comprises mainly tree plantations, the Group's joint-venture Veracel and Montes del Plata pulp mills, and Nordic stand-alone mills.

## Building and Living

Stora Enso Building and Living provides wood-based innovations and solutions for everyday living and housing needs. Product range covers all areas of urban construction – from supporting structures to interior design and environmental construction. The further-processed products include massive wood elements and housing modules, wood components and pellets completed with various sawn timber goods.

## Renewable Packaging

Renewable Packaging produces fibre-based packaging materials and innovative packaging solutions for all major consumer goods and industrial packaging applications. Renewable Packaging operates in every stage of the value chain, from pulp production, material and package production to recycling. The Business Area comprises three business units: Consumer Board, Packaging Solutions and Packaging Asia.

## Other

The segment Other includes the Nordic forest equity accounted investments, Stora Enso's shareholding in Pohjolan Voima, operations supplying wood to the Nordic mills and Group shared services and administration.

### Sales by Segment

| | Year Ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | External | Internal | Total | External | Internal | Total |
| EUR million | 2012 | | | 2011 | | |
| Printing and Reading | 4 705.6 | 133.7 | 4 839.3 | 4 881.8 | 140.2 | 5 022.0 |
| Biomaterials | 536.6 | 475.8 | 1 012.4 | 591.1 | 500.9 | 1 092.0 |
| Building and Living | 1 590.0 | 94.4 | 1 684.4 | 1 562.0 | 109.1 | 1 671.1 |
| Renewable Packaging | 3 143.5 | 72.5 | 3 216.0 | 3 125.3 | 69.3 | 3 194.6 |
| Other | 839.1 | 1 844.4 | 2 683.5 | 804.7 | 1 895.8 | 2 700.5 |
| Elimination of internal sales | - | -2 620.8 | -2 620.8 | - | -2 715.3 | -2 715.3 |
| **Total** | **10 814.8** | **-** | **10 814.8** | **10 964.9** | **-** | **10 964.9** |

Sales include external service income of EUR 48.6 (EUR 38.3) million.

### Segment Share of Operational EBIT, NRI, Fair Valuations and Non-Operational Items and Operating Profit

| | Year Ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | Operational EBIT | | NRI, Fair Valuations and Non-Operational Items | | Operating Profit | |
| EUR million | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Printing and Reading | 218.1 | 285.3 | 68.9 | -37.0 | 287.0 | 248.3 |
| Biomaterials | 82.1 | 169.2 | -35.9 | -5.9 | 46.2 | 163.3 |
| Building and Living | 28.8 | 62.8 | -2.4 | -35.3 | 26.4 | 27.5 |
| Renewable Packaging | 271.9 | 301.3 | -53.8 | -15.5 | 218.1 | 285.8 |
| Other | 17.4 | 48.1 | 93.9 | -13.7 | 111.3 | 34.4 |
| **Total** | **618.3** | **866.7** | **70.7** | **-107.4** | **689.0** | **759.3** |
| Net financial items | | | | | -207.3 | -338.4 |
| **Profit before tax** | | | | | **481.7** | **420.9** |
| Income tax expense | | | | | 8.7 | -78.7 |
| **Net Profit** | | | | | **490.4** | **342.2** |

Operational EBIT comprises the operating profit excluding NRI and fair valuations of the segments and Stora Enso's share of the operating profit excluding NRI and fair valuations of its equity accounted investments (EAI). Fair valuations include equity incentive schemes, synthetic options net of realised and open hedges, $CO_2$ emission rights and valuations of biological assets related to forest assets in EAI.

NRI = Non-recurring items. These are exceptional transactions that are not related to normal business operations. The most common non-recurring items are capital gains, additional write-downs or reversals of write-downs, provisions for planned restructuring and penalties. Non-recurring items are normally specified individually if they exceed one cent per share.

Fair valuations and non-operational items include equity incentive schemes, synthetic options net of realised and open hedges, $CO_2$ emission rights, valuations of biological assets related to forest assets in EAI and Group's share of tax and net financial items of EAI.

### Non-Recurring Items, Fair Valuations and Non-Operational Items

| | Year Ended 31 December | |
|---|---|---|
| EUR million | 2012 | 2011 |
| Reversals and impairments of fixed assets | 51.4 | -19.5 |
| Restructuring costs excluding fixed asset impairments | -61.8 | -39.6 |
| Other | 140.0 | -20.8 |
| Fair valuations and non-operational items | -58.9 | -27.5 |
| **Total** | **70.7** | **-107.4** |

### Segment Share of Operative Assets, Operative Liabilities and Operating Capital

| | Year Ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | Operative Assets | | Operative Liabilities | | Operating Capital | |
| EUR million | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Printing and Reading | 3 852.0 | 3 936.2 | 890.2 | 864.8 | 2 961.8 | 3 071.4 |
| Biomaterials | 1 614.3 | 1 599.5 | 201.7 | 144.8 | 1 412.6 | 1 454.7 |
| Building and Living | 790.4 | 780.4 | 225.2 | 218.3 | 565.2 | 562.1 |
| Renewable Packaging | 2 904.4 | 2 700.9 | 554.3 | 548.0 | 2 350.1 | 2 152.9 |
| Other and eliminations | 1 993.9 | 2 226.4 | 429.5 | 415.5 | 1 564.4 | 1 810.9 |
| **Total** | **11 155.0** | **11 243.4** | **2 300.9** | **2 191.4** | **8 854.1** | **9 052.0** |

### Fixed Assets, Depreciation and Impairment, and Capital Expenditure by Segment

| | Year Ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | Fixed Assets | | Depreciation and Impairment | | Capital Expenditure | |
| EUR million | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Printing and Reading | 2 576.9 | 2 615.6 | 189.5 | 266.8 | 125.7 | 105.8 |
| Biomaterials | 309.8 | 325.7 | 36.4 | 27.8 | 21.2 | 17.7 |
| Building and Living | 390.5 | 394.9 | 39.7 | 60.0 | 28.8 | 50.1 |
| Renewable Packaging | 1 870.3 | 1 685.8 | 236.5 | 196.8 | 338.0 | 237.6 |
| Other | 171.7 | 202.6 | 29.5 | 21.2 | 22.9 | 24.9 |
| **Total** | **5 319.2** | **5 224.6** | **531.6** | **572.6** | **536.6** | **436.1** |

### Goodwill by Segment

| | Year Ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | Goodwill | | Goodwill on Acquisitions | | Impairment | |
| EUR million | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Printing and Reading | 83.0 | 83.0 | - | - | - | - |
| Biomaterials | - | - | - | - | - | - |
| Building and Living | 111.5 | 109.9 | - | -0.1 | - | - |
| Renewable Packaging | 31.4 | 31.4 | 0.1 | 11.4 | - | - |
| Other | - | - | - | - | - | - |
| **Total** | **225.9** | **224.3** | **0.1** | **11.3** | **-** | **-** |

## Average Personnel

| Segment | Year Ended 31 December 2012 | 2011 |
|---|---|---|
| Printing and Reading | 8 783 | 9 052 |
| Biomaterials | 839 | 810 |
| Building and Living | 4 385 | 4 484 |
| Renewable Packaging | 12 292 | 10 888 |
| Other | 2 478 | 2 724 |
| **Total** | **28 777** | **27 958** |
| **Year-End Personnel** | **28 203** | **29 505** |

| Location | Year Ended 31 December 2012 | 2011 |
|---|---|---|
| Baltic States | 1 179 | 1 141 |
| Belgium | 601 | 592 |
| Czech Republic | 719 | 679 |
| Finland | 6 725 | 7 050 |
| France | 481 | 484 |
| Germany | 2 296 | 2 388 |
| Poland | 1 992 | 1 945 |
| Russia | 1 283 | 1 363 |
| Spain | 324 | 347 |
| Sweden | 6 078 | 6 342 |
| Other Europe | 1 581 | 1 652 |
| **Total Europe** | **23 259** | **23 983** |
| Brazil | 402 | 399 |
| China (incl. Hong Kong) | 4 262 | 2 972 |
| India | 503 | 251 |
| North America | 191 | 206 |
| Other | 160 | 147 |
| **Total** | **28 777** | **27 958** |

## External Sales by Destination and Origin

| | Year Ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | **Sales by Destination** | | **Sales by Origin** | | **Balance of Trade** | |
| **EUR million** | **2012** | **2011** | **2012** | **2011** | **2012** | **2011** |
| Austria | 263.3 | 300.2 | 384.6 | 416.2 | 121.3 | 116.0 |
| Baltic States | 198.7 | 192.6 | 284.2 | 300.6 | 85.5 | 108.0 |
| Belgium | 157.8 | 180.5 | 284.7 | 304.7 | 126.9 | 124.2 |
| Czech Republic | 156.5 | 162.4 | 237.9 | 207.5 | 81.4 | 45.1 |
| Denmark | 182.0 | 168.7 | 19.6 | 2.0 | -162.4 | -166.7 |
| Finland | 784.7 | 830.1 | 3 714.9 | 3 782.7 | 2 930.2 | 2 952.6 |
| France | 627.5 | 678.9 | 187.6 | 197.2 | -439.9 | -481.7 |
| Germany | 1 510.1 | 1 574.1 | 930.9 | 925.6 | -579.2 | -648.5 |
| Italy | 269.7 | 311.5 | 0.3 | 3.3 | -269.4 | -308.2 |
| Netherlands | 309.5 | 317.1 | 20.8 | 20.5 | -288.7 | -296.6 |
| Poland | 372.1 | 358.9 | 240.4 | 253.5 | -131.7 | -105.4 |
| Russia | 323.2 | 304.3 | 215.0 | 213.0 | -108.2 | -91.3 |
| Spain | 347.4 | 357.7 | 127.6 | 138.0 | -219.8 | -219.7 |
| Sweden | 1 107.9 | 1 110.6 | 3 200.5 | 3 330.4 | 2 092.6 | 2 219.8 |
| UK | 694.0 | 707.0 | 23.7 | 38.7 | -670.3 | -668.3 |
| Other Europe | 865.5 | 978.0 | 165.2 | 91.3 | -700.3 | -886.7 |
| **Total Europe** | **8 169.9** | **8 532.6** | **10 037.9** | **10 225.2** | **1 868.0** | **1 692.6** |
| Australia / New Zealand | 198.4 | 184.3 | 27.2 | 21.4 | -171.2 | -162.9 |
| Brazil | 215.1 | 220.8 | 384.8 | 393.0 | 169.7 | 172.2 |
| China (incl. Hong Kong) | 567.2 | 513.5 | 298.2 | 271.8 | -269.0 | -241.7 |
| Japan | 327.1 | 348.4 | - | 0.2 | -327.1 | -348.2 |
| Middle East | 324.5 | 242.1 | - | - | -324.5 | -242.1 |
| Uruguay | 5.4 | 4.9 | - | - | -5.4 | -4.9 |
| USA | 138.3 | 129.9 | 49.5 | 42.1 | -88.8 | -87.8 |
| Others | 868.9 | 788.4 | 17.2 | 11.2 | -851.7 | -777.2 |
| **Total** | **10 814.8** | **10 964.9** | **10 814.8** | **10 964.9** | **-** | **-** |

### Total Assets, Capital Employed and Shareholders' Equity by Location

| | As at 31 December | | | | | |
|---|---|---|---|---|---|---|
| | Total Assets | | Capital Employed | | Shareholders' Equity | |
| **EUR million** | **2012** | **2011** | **2012** | **2011** | **2012** | **2011** |
| Austria | 189.7 | 204.8 | 128.6 | 134.1 | 124.2 | 123.4 |
| Baltic States | 115.7 | 115.4 | 100.0 | 100.0 | 91.9 | 83.3 |
| Belgium | 507.4 | 543.6 | 422.8 | 458.6 | 268.5 | 283.6 |
| Czech Republic | 156.0 | 139.0 | 128.3 | 122.7 | 132.5 | 134.1 |
| Finland | 5 266.0 | 4 796.0 | 2 728.8 | 2 875.7 | 1 463.7 | 1 147.5 |
| France | 102.5 | 123.9 | 51.2 | 71.8 | 278.0 | 291.0 |
| Germany | 820.1 | 819.0 | 320.4 | 342.2 | 395.8 | 406.7 |
| Poland | 588.8 | 361.9 | 468.4 | 279.3 | 305.5 | 265.3 |
| Russia | 205.5 | 209.4 | 157.1 | 159.0 | 97.3 | 72.6 |
| Spain | 65.5 | 96.2 | 30.2 | 59.2 | 21.9 | 55.5 |
| Sweden | 3 578.5 | 3 485.7 | 2 336.7 | 2 298.0 | 1 044.6 | 1 370.0 |
| Other Europe | 137.5 | 117.8 | 39.5 | 112.6 | 166.4 | 268.0 |
| **Total Europe** | **11 733.2** | **11 012.7** | **6 912.0** | **7 013.2** | **4 390.3** | **4 501.0** |
| Brazil | 795.5 | 841.8 | 720.4 | 781.4 | 741.3 | 793.3 |
| China (incl. Hong Kong) | 569.9 | 602.9 | 443.5 | 456.3 | 104.5 | 105.7 |
| Uruguay | 494.2 | 404.9 | 494.2 | 404.9 | 494.2 | 404.9 |
| USA | 42.8 | 67.9 | 36.7 | 60.4 | 35.1 | 49.1 |
| Other | 58.0 | 68.9 | 26.0 | -10.6 | 19.1 | 18.7 |
| **Total** | **13 693.6** | **12 999.1** | **8 632.8** | **8 705.6** | **5 784.5** | **5 872.7** |

Total capital employed represents operating capital less net tax liabilities.

### Reconciliation of Operating Capital to Total Assets

| | As at 31 December | |
|---|---|---|
| **EUR million** | **2012** | **2011** |
| **Operating Capital** | **8 854.1** | **9 052.0** |
| Gross-up for operating liabilities | 2 300.9 | 2 191.4 |
| Interest-bearing receivables | 2 377.0 | 1 627.6 |
| Tax receivables | 161.6 | 128.1 |
| **Total Assets** | **13 693.6** | **12 999.1** |

Operating capital ("O" items) is designated thus on the Balance Sheet and represents the sum of fixed and biological assets, emission rights, unlisted shares, other non-current assets, inventories, current operative receivables and liabilities, provisions and other non-current operative liabilities.

### Fixed Assets, Capital Expenditure and Depreciation and Impairment by Location

| | Year Ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | Fixed Assets | | Depreciation and Impairment | | Capital Expenditure | |
| **EUR million** | **2012** | **2011** | **2012** | **2011** | **2012** | **2011** |
| Austria | 121.4 | 125.5 | 10.3 | 9.2 | 6.4 | 26.3 |
| Baltic States | 58.8 | 57.6 | 9.4 | 9.3 | 8.6 | 11.6 |
| Belgium | 423.0 | 454.6 | 39.1 | 38.9 | 7.6 | 9.2 |
| Czech Republic | 113.3 | 105.8 | 4.4 | 4.5 | 9.3 | 1.3 |
| Finland | 1 433.4 | 1 418.3 | 113.4 | 199.3 | 128.0 | 129.7 |
| France | 30.9 | 31.4 | 3.5 | 3.4 | 3.0 | 2.5 |
| Germany | 556.0 | 569.5 | 54.3 | 52.2 | 41.2 | 26.7 |
| Poland | 443.4 | 257.6 | 21.6 | 24.1 | 179.0 | 81.6 |
| Russia | 123.4 | 129.6 | 15.5 | -7.6 | 4.8 | 11.4 |
| Spain | 18.1 | 48.3 | 32.4 | 6.9 | 2.0 | 2.8 |
| Sweden | 1 635.8 | 1 638.1 | 197.9 | 205.5 | 132.8 | 106.5 |
| Other Europe | 18.2 | 22.5 | 3.7 | 3.1 | 0.5 | 3.1 |
| **Total Europe** | **4 975.7** | **4 858.8** | **505.5** | **548.8** | **523.2** | **412.7** |
| Brazil | 95.1 | 103.7 | 0.2 | 8.3 | 2.9 | 4.2 |
| China (incl. Hong Kong) | 227.1 | 237.6 | 22.5 | 16.0 | 9.3 | 18.4 |
| Uruguay | - | - | - | - | - | - |
| USA | 15.5 | 17.8 | 2.3 | -1.0 | 0.3 | 0.5 |
| Other | 5.8 | 6.7 | 1.1 | 0.5 | 0.9 | 0.3 |
| **Total** | **5 319.2** | **5 224.6** | **531.6** | **572.6** | **536.6** | **436.1** |

# Note 4 Acquisitions and Disposals

### Acquisition of Group Companies

| | Year Ended 31 December | |
|---|---|---|
| **EUR million** | **2012** | **2011** |
| **Acquired Net Assets** | | |
| Cash and cash equivalents, net of bank overdraft | 1.8 | 15.7 |
| Fixed assets | 5.8 | 52.0 |
| Working capital | 8.5 | 13.1 |
| Tax assets and liabilities | 0.6 | -4.6 |
| Interest-bearing assets and liabilities | -5.0 | -5.4 |
| Non-controlling interests | -0.2 | -36.4 |
| **Fair Value of Net Assets in Acquired Companies** | **11.5** | **34.4** |
| Goodwill (provisional for 2011) | 0.1 | 11.3 |
| Value of previously held equity shares | -2.8 | - |
| Gain to retained earnings on non-controlling interest buy-outs | - | -0.8 |
| **Total Purchase Consideration** | **8.8** | **44.9** |

On 31 August 2012 Stora Enso acquired the remaining 50% shareholding in the Finnish sawn timber trading company RETS Timber Oy Ltd, thus increasing the Group's shareholding to 100%. Prior to the acquisition RETS Timber Oy Ltd was accounted for with the equity accounting method, but since 1 September 2012 it has been consolidated as a subsidiary in the Group's financial statements. At the acquisition date the value of the Group's 50% ownership in RETS Timber Oy Ltd was EUR 2.8 million. The consideration for the acquired shares amounted to EUR 2.8 million, which equals the fair value of the net assets acquired. The impact from RETS Timber Oy Ltd on the Group's sales and net profit in 2012 was EUR 56.4 million and EUR 0.7 million, respectively.

On 20 July 2012 Stora Enso acquired 100% of the shares in the Chinese packaging company Hebei Sununion Environmental Packaging Ltd. The consideration amounted to EUR 4.0 million, which equals the fair value of the net assets acquired.

On 12 July 2012 Stora Enso spent EUR 1.6 million on acquiring a module production unit at Hartola in Finland in a business operation acquisition. The consideration equals the fair value of the net assets acquired.

On 1 January 2012 Stora Enso spent EUR 0.4 million on acquiring 51% of the shares in Danfiber A/S, a Danish company operating as a trading intermediary between the suppliers and buyers of paper for recycling. The consideration equals the fair value of Stora Enso's share of the net assets acquired. The non-controlling interest in Danfiber A/S was valued as the proportionate share of the acquiree's net assets.

The impact from Hebei Sununion Environmental Packaging Ltd, Hartola and Danfiber A/S on the Group's sales and net profit in 2012 was EUR 10.3 million and negative EUR 1.3 million, respectively.

On 28 July 2011 Stora Enso completed the acquisition of 51% of the shares in the Chinese packaging company Inpac International Print & Packaging Co., Ltd., subsequently renamed Stora Enso Inpac Packaging Co. Ltd. Inpac is a packaging products group with production operations in China and India, and service operations in Korea. Inpac specialises in manufacturing consumer packaging, especially for global manufacturers of consumer electronics and other consumer goods. The acquisition gives Stora Enso access to new customers in the fast-growing Chinese, Indian and Korean markets, and it enables the Group to grow with global key customers in new geographic areas. The impact from Inpac on the Group's sales and net profit in 2011 was EUR 47.0 million and EUR 2.7 million, respectively.

The Inpac acquisition accounting was finalised in the third quarter of 2012 and the final consideration amounted to EUR 44.5 million. During 2012 there was a EUR 0.2 million adjustment to the provisional net asset fair value amount presented in 2011 Financial Statement. The acquisition was financed from the Group's own cash assets. The goodwill is based on future earnings expectations and synergy benefits. The non-controlling interest in Inpac was valued as the proportionate share of the acquiree's net assets.

### Inpac Acquisition

| EUR million | Final Fair Value Table |
|---|---|
| Cash and cash equivalents, net of bank overdraft | 15.7 |
| Fixed assets | 52.4 |
| Working Capital | 12.5 |
| Tax assets and liabilities | -4.6 |
| Interest-bearing assets and liabilities | -5.4 |
| Non-controlling interest | -37.6 |
| **Net assets** | **33.0** |
| Goodwill | 11.5 |
| **Purchase consideration** | **44.5** |
| | |
| Consideration | 44.5 |
| Cash and cash equivalents in acquired companies, net of bank overdraft | -15.7 |
| **Cash flow impact** | **28.8** |

In 2011 Stora Enso spent EUR 0.4 million on buying out non-controlling interests in Design Force AB. A gain of EUR 0.8 million was recorded in retained earnings related to the buy-out.

There were no disposals of Group companies in 2012 or 2011.

# Note 5 Other Operating Income and Expense

The Group has recorded Other Operating Income of EUR 35.3 (EUR 60.0) million and under Materials and Services an expense of EUR 21.5 (EUR 42.9) million relating to emission rights. The net income amounts to EUR 13.8 (EUR 17.1) million, of which income of EUR 35.1 (EUR 60.8) million reflects the fair value of the emission allowances on the date when the Group obtained control over these rights and also includes the result from the net sale of surplus allowances, and an expense of EUR 18.3 (EUR 36.8) million reflects the cost of $CO_2$ emissions from production. As the market price of the emission rights dropped below the original grant date price, the surplus rights at year end were revalued resulting in an expense of EUR 3.0 (EUR 6.9) million. Actual realised profits amounted to EUR 8.6 (EUR 15.8) million on the disposal of surplus rights and EUR 11.3 (EUR 6.2) million is the value of excess emission rights held at the year end.

In the second quarter of 2012 Stora Enso Oyj received a dividend of EUR 40.7 million from Pohjolan Voima Oy. This was recorded as other operating income.

The Group also generates income from its renewable power generation in Sweden, Belgium and Poland. The power is produced from biomass, so the Group is entitled to Green Certificates for onward sale to electricity retailers for fulfilling their renewable power quota obligations. This income amounted to EUR 65.9 (EUR 58.9) million.

Total sales of excess freight capacity in 2012 amounted to EUR 51.2 (EUR 59.3) million.

### Other Operating Income and Expense

| | Year Ended 31 December | |
|---|---|---|
| **EUR million** | **2012** | **2011** |
| **Other Operating Income** | | |
| Emission rights granted and disposal gains | 35.3 | 60.0 |
| Sale of Green Certificates | 65.9 | 58.9 |
| Capital gains on sale of fixed assets | 3.4 | 4.3 |
| Dividend and Gain on sale of unlisted shares | 41.3 | 4.4 |
| Insurance compensation | 2.1 | 3.7 |
| Freight sales, rent and other | 66.6 | 69.8 |
| Subsidies | 4.2 | 7.8 |
| **Total** | **218.8** | **208.9** |
| **Other Operating Expenses include** | | |
| Rents paid | 94.2 | 86.3 |
| Research and development | 63.6 | 65.4 |
| Credit losses | 5.8 | 5.2 |
| **Materials and Services include** | | |
| Emissions rights to be delivered and disposal losses | 21.5 | 42.9 |

Aggregate fees for professional services of an accounting nature rendered to the Group amounted to EUR 4.7 (EUR 5.5) million payable to the principal independent auditor Deloitte. Audit fees relate to the audit of the annual financial statements or ancillary services normally provided in connection with statutory and regulatory filings. Audit-related fees are incurred for assurance and associated services that are reasonably related to the performance of the audit or review of the financial statements. Tax fees are incurred on account of tax compliance and advisory services.

### Principal Independent Auditor's Fees and Services

| | Year Ended 31 December | |
|---|---|---|
| **EUR million** | **2012** | **2011** |
| Audit fees | 4.0 | 4.2 |
| Audit-related | 0.5 | 0.3 |
| Tax fees | 0.2 | 0.2 |
| Other fees | - | 0.8 |
| **Total** | **4.7** | **5.5** |

# Note 6 Staff Costs

### Personnel Expenses

| EUR million | Year Ended 31 December 2012 | 2011 |
|---|---|---|
| Wages and salaries | 1 034.6 | 1 014.8 |
| Pensions (see below) | 163.4 | 172.6 |
| Share-based remuneration (Note 22) | 2.0 | 1.8 |
| Total return swaps | -9.1 | 31.4 |
| Other statutory employer costs | 150.7 | 154.6 |
| Other voluntary costs | 19.2 | 18.7 |
| **Total** | **1 360.8** | **1 393.9** |

### Pensions

| EUR million | Year Ended 31 December 2012 | 2011 |
|---|---|---|
| Defined benefit plans | 17.5 | 15.9 |
| Defined contribution plans | 145.7 | 154.6 |
| Other post-employment benefits | 0.2 | 2.1 |
| **Pension Costs: Total** | **163.4** | **172.6** |

Total personnel expenses totalled EUR 1 360.8 million in 2012 compared with EUR 1 393.9 million in 2011. The average number of employees in 2012 amounted to 28 777, compared with 27 958 in 2011. Pension costs are discussed in Note 21 Post-Employment Benefits.

In June 2011 the Labour Court in Finland gave a decision regarding Kemijärvi Mill and Summa Mill co-operation related disputes. Following the decision Stora Enso compensated EUR 6.8 million to former Kemijärvi Mill and Summa Mill employees. The compensation was recorded in Wages and Salaries.

Share-based remuneration comprises share options and share awards, which are described in more detail in Note 22 Employee Variable Compensation and Equity Incentive Schemes.

The Group hedges its option programme by using Total Return Swaps (TRS) shown under personnel costs alongside the option result to which they relate so that both the risk and the result from hedging of that risk appear in the same section of the Income Statement. The options and the derivatives hedging do not qualify for hedge accounting as the options are priced by reference to valuation models, whereas the TRS are priced by reference to the current market price of the shares. The income of share-based remuneration net of TRS in 2012 amounted to EUR 7.1 million compared with an expense of EUR 33.2 million in 2011.

In 2012 the expense of the share-based remuneration itself was EUR 2.0 million. However, due to the increase in the Stora Enso R share price from EUR 4.63 at 31 December 2011 to EUR 5.25 at 31 December 2012, an income of EUR 9.1 million was recorded in respect of TRS.

Group Executive Team and Board remuneration are described in Note 7.

# Note 7 Board and Executive Remuneration

## Board Remuneration and Committee Memberships

| | Year Ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2012 | | | 2011 | |
| **EUR thousand** | **Cash** | **Shares** | **Total** | **Total** | **Committee Memberships** |
| **Board Members at 31 December 2012** | | | | | |
| Gunnar Brock, Chairman | 126.0 | 68.0 | 194.0 | 159.0 | Remuneration, Nomination [2,3], Financial and Audit |
| Juha Rantanen, Vice Chairman | 74.0 | 40.0 | 114.0 | 99.0 | Nomination [2,3], Financial and Audit |
| Hock Goh | 42.0 | 28.0 | 70.0 | - | |
| Birgitta Kantola | 62.0 | 28.0 | 90.0 | 80.0 | Financial and Audit |
| Mikael Mäkinen | 42.0 | 28.0 | 70.0 | 60.0 | |
| Hans Stråberg | 48.0 | 28.0 | 76.0 | 66.0 | Remuneration |
| Matti Vuoria | 48.0 | 28.0 | 76.0 | 66.0 | Remuneration |
| Marcus Wallenberg | 42.0 | 28.0 | 70.0 | 60.0 | |
| **Former Board Members** | | | | | |
| Carla Grasso (retired 20 April 2011) | - | - | - | - | |
| **Total Remuneration as Directors [1]** | **484.0** | **276.0** | **760.0** | **590.0** | |

[1] 40% of the Board remuneration in 2012 was paid in Stora Enso R shares purchased from the market and distributed as to Chairman 14 044 R shares, Vice Chairman 8 262 R shares, and members 5 783 R shares each. The Company has no formal policy requirements for the Board members to retain shares received as remuneration.

[2] Pekka Ala-Pietilä appointed by Solidium Oy is Chairman of the Nomination Board. Claes Dahlbäck is the member of the Nomination Board appointed by the Foundation Asset Management.

[3] Stora Enso's Nomination Board is appointed by the shareholders at the AGM. Gunnar Brock and Juha Rantanen were appointed thereto in their roles as Chairman and Vice Chairman of the Board of Directors. A member of the Board of Directors may not be Chairman of the Nomination Board.

## Board Share Interests

| | Shares Held [1] | |
|---|---|---|
| | **A** | **R** |
| **Board Members at 31 December 2012** | | |
| Gunnar Brock, Chairman | - | 39 362 |
| Juha Rantanen, Vice Chairman | - | 25 338 |
| Hock Goh | - | 5 783 |
| Birgitta Kantola | - | 21 988 |
| Mikael Mäkinen | - | 12 676 |
| Hans Stråberg | - | 15 561 |
| Matti Vuoria | - | 27 488 |
| Marcus Wallenberg | 2 541 | 23 203 |
| **Total Shares Held** | **2 541** | **171 399** |

[1] Shares held by Board members and related parties. Marcus Wallenberg's 2 541 A shares and 4 715 R shares are held by related parties. Other Board members' related parties hold no Stora Enso shares.

## Group Executive Team (GET) remuneration and share interests

Shown in Note 22 Employee Variable Compensation and Equity Incentive Schemes are details of total executive remuneration share and share option interests and incentive schemes for the GET with further information provided in respect of the Chief Executive Officer (CEO). The actual cash or cash equivalent received in the year is disclosed in the remuneration table for options and share awards that vested in the year. The Company recommends and expects CEO and GET members to hold Stora Enso shares at a value corresponding to at least one annual base salary. Stora Enso Shares received as remuneration is therefore recommended not to be sold until this level has been reached. Additional information relating to the cost of options and share awards as calculated in accordance with International Financial Reporting Standards is also disclosed in the text.

The aggregate cost of GET remuneration in 2012 amounted to EUR 8.4 (EUR 15.3) million of which EUR 0.1 (EUR 2.4) million related to deferred Short Term Incentives. The rest of the decrease is mainly due to a lower fulfilment of the incentive-related financial performance criteria for 2011.

The total number of GET members remained nine during 2012. During 2012 three new members were appointed to the Group Executive Team. At the same time three other members left the team to take new positions inside and outside the Company. Executive Vice President, Fine Paper Hannu Alalauri, Executive Vice President, R&D, Technology, Energy, Logistics and Investments, Country Manager Germany, Bernd Rettig and Chief Financial Officer, Markus Rauramo were replaced by Executive Vice President, Global Ethics and Compliance, General Counsel, Per Lyrvall, Executive Vice President Global Identity, Lauri Peltola and Chief Financial Officer, Karl-Henrik Sundström.

In accordance with their respective pension arrangements, GET members may retire at sixty or sixty-five years of age with pensions consistent with local practices in their respective home countries. Contracts of employment provide for notice of six months prior to termination with severance compensation of twelve months basic salary if the termination is at the Company's request. Executives appointed before 2007 receive a further optional twelve months salary depending on employment.

The ordinary annual salary review was effective, as normal, from 1 March. The outcome of the financial targets relating to the Short Term and Long Term Incentive programmes was reviewed and confirmed by the Remuneration Committee.

### Group Executive Team Remuneration

| | Year Ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | | | 2011 | | |
| **EUR thousand** | **CEO** | **Others [1]** | **GET Total** | **CEO** | **Others** | **GET Total** |
| **Remuneration** | | | | | | |
| Annual salary | 1 119 | 3 328 | 4 447 | 1 081 | 3 351 | 4 432 |
| Local housing (actual costs) | - | 127 | 127 | - | 179 | 179 |
| Other benefits | 14 | 135 | 149 | 13 | 473 | 486 |
| Short Term Incentive programme | 358 | 680 | 1 038 | 655 | 1 147[3] | 1 802 |
| Long Term Incentive programme | 239 | 551 | 790 | 1 248 | 2 509 | 3 757 |
| | **1 730** | **4 821** | **6 551** | **2 997** | **7 659** | **10 656** |
| **Pension Costs** | | | | | | |
| Mandatory Company plans | - | 546 | 546 | - | 624 | 624 |
| Stora Enso voluntary plans | 416 | 787 | 1 203 | 416 | 1 211 | 1 627 |
| | **416** | **1 333** | **1 749** | **416** | **1 835** | **2 251** |
| **Total Compensation, Excluding Deferred Short Term Incentives** | **2 146** | **6 154** | **8 300** | **3 413** | **9 494** | **12 907** |
| Deferred Short Term Incentives | 53[2] | - | 53 | 890[4] | 1 539[5] | 2 429 |
| **Total Compensation** | **2 199** | **6 154** | **8 353** | **4 303** | **11 033** | **15 336** |

1) The amounts below include payments related to Hannu Alalauri, Bernd Rettig and Markus Rauramo until their respective leaving date. The payments related the new GET members, Lauri Peltola, Per Lyrvall and Karl-Henrik Sundström are also included as of their starting date.
2) Settlement of deferred Short Term Incentive from performance year 2008, converted to Restricted Share Awards.
3) The amount includes payment related to Elisabet Salander Björklund's Short Term Incentive for performance year 2010.
4) Settlement of deferred Short Term Incentive from performance years 2007, 2008 and 2009, converted to Restricted Share Awards.
5) Settlement of deferred Short Term Incentive from performance year 2009, converted to Restricted Share Awards.

## Executives other than CEO

**Short Term Incentive (STI) programmes for management**

GET members have STI programmes with up to a maximum of 50% of their annual fixed salary, payable the year after the performance period. The STI for 2012 was based 70% on financial measures and 30% on Individual Key Targets.

**Option programmes for management**

No options have been awarded since 2007. During 2012, 75 000 options relating to the 2005 programme lapsed and no others were exercised. In 2011 no options were exercised.

**Long Term Incentive (LTI) programmes for management**

GET members participate in a number of share-based LTI programmes. In 2007/2008 a Senior Executive section of the Performance Share programme was introduced. The shares granted under this programme will vest over a four-year period (2009–2012). The vesting date is 1 March each year. Since 2009 new Performance Share programmes have been launched each year. The Performance Share Plans vest in portions over three years, based on annually defined targets set by the Remuneration Committee. All the programmes launched between 2009 and 2011 can vest up to an absolute maximum vesting level of 150% of the number of shares awarded, provided that the result of the performance criterion exceeds the target. In the Performance Share programme launched in 2012, the absolute maximum vesting level was changed to 100% of the number of shares awarded. The performance criterion for 2012 was based solely on financial measures.

Under the Performance Share Plan 2012 GET members received awards of 488 300 shares assuming maximum vesting level during the three-year vesting period is achieved. The increased number of shares granted under the Performance Share programme 2012 is mainly due to the change in the absolute maximum vesting level from 150% to 100% and the lower share value at grant 2012 (EUR 5.635) compared to 2011(EUR 8.165).

Under the accounting rules for share-based payments, the non-cash charge for the executive options and restricted share awards is calculated at the vesting value of shares and options granted in the year plus any fair value movement in the year on previous awards. The accounting charges will not agree with the actual cash costs on a year-to-year basis though the totals will match when they have all been vested, cashed, expired or lapsed. The figures in the Group Executive Team Remuneration table refer to individuals who were executives at the time of settlement.

During the year the number of shares settled on executives (GET member at settlement date) from previous awards derived from Restricted Share Programmes and Performance Share Programmes amounted to 97 767 having a cash value at the 1 March 2012 settlement date of EUR 550 917 based on the share price of EUR 5.635 at that date.

No GET members were eligible for new Restricted Share Awards in 2012. For GET members the aggregate number of outstanding shares derived from Restricted Share Programmes of previous years to be settled in 2013 is 31 870. The corresponding number to be settled in 2014 is 31 870.

## Chief Executive Officer – Jouko Karvinen

The CEO has been employed since 1 January 2007 and took office following the 2007 Annual General Meeting on 29 March 2007. His contract was approved by the Board on his appointment. It has a notice period of six months with a severance payment of twelve months salary on termination by the Company but with no contractual payments on any change of control. Benefits include a car allowance and pension provision under a Company defined contribution plan that has acceptance from the UK Inland Revenue (RPS). Until 2012 the Company and the CEO contributed to the CEO's pension in total with a fixed contribution of 40% of the CEO's fixed salary into defined contribution schemes (DC). The Company contributed with 35% and the CEO with 5% of the basic salary. As of April 2012 the CEO's pension is secured with a in-lieu-of-pension cash allowance from the Company, amounting to 35% of the basic salary. It should be noted that the new arrangement does not impose any additional cost for the Company. The retirement age is sixty.

**Short Term Incentive (STI) programme for CEO**

The CEO is entitled to a STI programme decided by the Board each year giving a maximum of 75% of annual fixed salary. The STI for 2012 was based 70% on financial measures and 30% on Individual Key Targets.

**Option programmes for CEO**

No options have been awarded since 2007. In 2007 the CEO was granted 157 646 options on joining Stora Enso with the estimated value at the grant date of 2 January 2007 as calculated by the option pricing model being EUR 365 000. During 2012 the CEO did not exercise any of these options.

**Long Term Incentive (LTI) programmes for CEO**

The CEO participates in a number of share based LTI programmes. As of 2007 the CEO participates in the Senior Executive section of the Performance Share Plan. The shares granted under this four-year programme vested with its last portion 1 March 2012. Since 2009 new performance share programmes with a three-year vesting period have been launched each year. All the programmes launched between 2009 and 2011 can vest up to an absolute maximum vesting level of 150% of the number of shares awarded, provided that the result of the performance criterion exceeds the target, with the exception of the additional performance award (70 000 shares) the CEO received in 2011, which can vest up to 100% in one portion at 1 March 2015 if the specifically defined performance targets will be met. In the Performance Share programme launched in 2012, the absolute maximum vesting level was changed to 100% of the number of shares awarded. The performance criterion for 2012 was based solely on financial measures.

The CEO received an award under the Performance Share Plan 2012 of 193 266 shares. The grant value EUR 1 089 054 is based on the share price at grant date (EUR 5.635) and assuming maximum vesting level during the three-year vesting period is achieved. The performance criterion for 2012 was based solely on financial measures.

During the year the number of shares settled on the CEO from earlier awards derived from Restricted Share Programmes and Performance Share Programmes amounted to 51 828, including deferred STI from performance year 2008, having a cash value of EUR 292 051 at the 1 March 2012 settlement date based on the share price of EUR 5.635 at that date.

The CEO did not receive any new Restricted Share Award in 2012. There are no outstanding shares derived from restricted share programmes of previous years to be settled.

The CEO has a cap on total variable pay components that will be applicable for STI and LTI payments made in 2013 and onwards such that if the aggregate outcome of STI and LTI would exceed 100% of the CEO's annual basic salary the LTI outcome would then be reduced accordingly. The additional performance award is not subject to the cap.

## Group Executive Team Share Interests and Options

| Executives in Office at the Year End | R Shares Held [1) 2)] | Synthetic Options (2006–2007) | Performance Share Awards | Restricted Share Awards |
|---|---|---|---|---|
| Juan Carlos Bueno | - | - | 101 830 | 30 240 |
| Lars Häggström | 1 045 | - | 59 916 | - |
| Jouko Karvinen, CEO | 237 009 | 157 646 | 332 334 | - |
| Hannu Kasurinen | 50 693 | 18 750 | 86 604 | - |
| Per Lyrvall | 19 205 | 5 000 | 49 069 | - |
| Mats Nordlander | 67 002 | 15 000 | 139 394 | - |
| Lauri Peltola | 26 255 | - | 51 906 | 33 500 |
| Karl-Henrik Sundström | - | - | 45 800 | - |
| Juha Vanhainen | 58 314 | 18 750 | 99 161 | - |
| **Total, Serving Officers [3)]** | **459 523** | **215 146** | **966 014** | **63 740** |

1) None of the GET members holds A shares.
2) There were no shareholdings by related parties of GET members as of 31 Dec 2012.
3) The Company recommends and expects GET members to hold Stora Enso shares at a value corresponding to at least one annual base salary. Stora Enso Shares received as remuneration is therefore recommended not to be sold until this level has been reached.

| The following Executive Officers also Served in 2012 | Shares Held when GET Membership Ended [1)] | Synthetic Options (2006–2007) | Performance Share Awards | Effective Date of GET Membership Ending |
|---|---|---|---|---|
| Hannu Alalauri | 56 593 | 18 750 | 49 475 | 19 Mar 2012 |
| Markus Rauramo, CFO | 60 388 | - | - | 31 Jul 2012 |
| Bernd Rettig | 77 572 | 22 500 | 81 787 | 19 Mar 2012 |
| **Total** | **194 553** | **41 250** | **131 262** | |

1) Hannu Alalauri's related parties held 300 R shares and Markus Rauramo's related parties held 200 R shares when Alalauri's and Rauramo's GET membership ended.

# Note 8 Net Financial Items

### Financial Income and Expense

| | Year Ended 31 December | |
|---|---|---|
| **EUR million** | **2012** | **2011** |
| **Net Financial Expense in the Income Statement** | | |
| Financial income | 128.2 | 42.9 |
| Financial expense | -335.5 | -381.3 |
| **Total** | **-207.3** | **-338.4** |
| **Represented by** | | |
| Interest expense | | |
| Bank borrowings | -211.4 | -175.0 |
| Net interest from interest rate derivatives | 14.6 | 30.9 |
| Finance leases | -3.8 | -4.2 |
| Interest capitalised | 8.8 | 1.9 |
| Interest income | 20.8 | 24.1 |
| Income from interest-bearing securities | 9.9 | 7.5 |
| Exchange gains and losses | | |
| Currency derivatives | -71.4 | 0.1 |
| Borrowings and deposits | 59.8 | -27.1 |
| Other financial income (including listed securities) | 37.7 | 11.2 |
| Other financial expense | | |
| Fair value hedges | -1.0 | -1.6 |
| Other fair value changes | -42.6 | -10.2 |
| Others (including listed securities) | -28.7 | -196.0 |
| **Total** | **-207.3** | **-338.4** |

Gains and losses on derivative financial instruments are shown in Note 28 Derivatives.

Stora Enso currently holds PIK (Payment-In-Kind) note from Papyrus Holding AB in Sweden with a nominal value of EUR 89.5 million. This unlisted financial security accrues interest which is shown in the table above as EUR 9.9 (EUR 7.5) million of income from interest-bearing securities. The interest is accrued into the principal of the PIK Note which will be repaid within a set number of years or when these businesses have a change in control.

Stora Enso recorded a provision of EUR 128.2 (USD 180.0) million in the third quarter of 2011 due to NewPage Corporation's Chapter 11 filing in the USA. The provision was related to NewPage's Stevens Point Mill Paper Machine (PM) 35 lease obligation guaranteed by Stora Enso. On the divestment of Stora Enso North America Inc. (SENA) to NewPage, Stora Enso remained as a guarantor of the lease. The provision was reported in the table above under other financial expense and exchange gains and losses on borrowings and deposits. Stora Enso recorded EUR 13.6 million reversal of provision in the first quarter results of 2012 and EUR 9.5 million reversal of provision in the second quarter results of 2012. The provision was fully settled in the second quarter of 2012 and in the final settlement agreement in December 2012, Stora Enso recorded EUR 10.5 million income in its fourth-quarter results of 2012. The reversal of provisions and the settlement income were reported under other financial income.

In 2011 Stora Enso recorded a write-down of EUR 11.7 million related to its 19.46 % Arktos Group Ltd Oy shareholding and loan receivables. The write-down of shares had a negative impact of EUR 1.5 million on operating profit and the write-down of the loan receivables a negative impact of EUR 10.2 million on other financial expense.

Exchange gains and losses shown in the previous table for currency derivatives relate to instruments that are fair valued through the Income Statement as they do not meet hedge accounting criteria. The other fair value changes included under other financial expenses are mainly related to the change in the fair value of interest rate derivatives. Fees for items such as unused committed credit facilities, guarantees and rating agencies are included in other financial expenses and were EUR 21.7 (EUR 20.2) million at 31 December 2012. Costs on long-term debt issues are capitalised as part of non-current debt, which at 31 December 2012 amounted to EUR 9.6 (EUR 6.1) million, and are amortised by using the effective interest rate method through the Income Statement. EUR 2.1 (EUR 1.6) million were amortised in 2012 and 2011 respectively. In most cases, the Group's average borrowing rate is used to determine the amount of borrowing costs of interest capitalised.

### Total Foreign Exchange Gains and Losses in the Income Statement

| | Year Ended 31 December | |
|---|---|---|
| **EUR million** | **2012** | **2011** |
| Sales | -11.2 | 11.8 |
| Costs and expenses | 5.1 | -0.5 |
| Net financial items | -11.6 | -27.0 |
| **Total** | **-17.7** | **-15.7** |

# Note 9 Income Taxes

### Tax Expense

| | Year Ended 31 December | |
|---|---|---|
| **EUR million** | **2012** | **2011** |
| Current Tax | -60.5 | -74.6 |
| Deferred Tax | 69.2 | -4.1 |
| **Total Tax** | **8.7** | **-78.7** |

### Income Tax Rate Reconciliation

| | Year Ended 31 December | |
|---|---|---|
| **EUR million** | **2012** | **2011** |
| Profit before tax | 481.7 | 420.9 |
| Tax at statutory rates applicable to profits in the country concerned [1] | -121.1 | -96.4 |
| Non-deductible expenses and tax exempt income [2] | 31.2 | 15.0 |
| Valuation of deferred tax assets | 6.5 | -30.4 |
| Taxes from prior years | 5.1 | 9.7 |
| Change in tax rates and tax laws | 63.2 | -4.6 |
| Profits from equity accounted investments | 26.2 | 31.4 |
| Other | -2.4 | -3.4 |
| **Total Tax** | **8.7** | **-78.7** |
| **Effective Tax Rate** | **-1.8%** | **18.7%** |
| **Statutory Tax Rate** | **25.1%** | **22.9%** |

[1] Includes impact of EUR 9.9 million from tax holidays and other tax benefits in 2012. Includes impact of EUR 14.5 million from tax holidays and other tax benefits in 2011.
[2] The tax value of non-deductible expenses of EUR 10.1 million has been netted against tax exempt income of EUR 41.3 million in 2012. The tax value of non-deductible expenses of EUR 12.9 million has been netted against tax exempt income of EUR 27.9 million in 2011.

In November 2012, the Swedish Parliament enacted a tax rate change from 26.3% to 22%. As a result, the Group income tax includes a benefit of EUR 63.2 million due to the application of the new rate to Swedish deferred tax assets and liabilities. The effect of the new rate on the Group's share in Bergvik Skog AB is recognised in the Share of results of equity accounted investments.

At 31 December 2012 Stora Enso had EUR 2 318 (EUR 1 846) million of gross losses carried forward, of which some EUR 886 (EUR 891) million had no expiry date, EUR 30 (EUR 22) million will expire within five years and EUR 1 402 (EUR 933) million will expire thereafter. Tax losses of EUR 1 333 (EUR 832) million relate to Finland.

### Change in Deferred Taxes 2012

| EUR million | Value at 1 Jan 2012 | Income Statement | OCI | Acquisitions/ Disposals | Translation difference | Value at 31 Dec 2012 |
|---|---|---|---|---|---|---|
| Fixed assets | -521.8 | 72.0 | - | 0.1 | -12.0 | -461.7 |
| Financial instruments | 4.1 | - | -6.5 | - | -1.7 | -4.1 |
| Untaxed reserves | -41.0 | 3.1 | - | - | -2.7 | -40.6 |
| Pensions and provisions | 75.0 | -19.9 | 32.0 | - | 1.1 | 88.2 |
| Tax losses and tax credits carried forward [1] | 196.8 | 30.0 | - | - | -0.5 | 226.3 |
| Other deferred taxes | 7.8 | -16.0 | - | -0.1 | -0.5 | -8.8 |
| **Total** | **-279.1** | **69.2** | **25.5** | **-** | **-16.3** | **-200.7** |
| Equity hedges (CTA) | - | -4.1 | 4.1 | - | - | - |
| **Change in Deferred Tax** | **-279.1** | **65.1** | **29.6** | **-** | **-16.3** | **-200.7** |
| Assets [2] | 121.9 | | | | | 143.1 |
| Liabilities [2] | -401.0 | | | | | -343.8 |

[1] Tax losses with unrecognised tax value EUR 363.8 million.
[2] Deferred tax assets and liabilities have been offset in accordance with IAS 12.
OCI = Other Comprehensive income
CTA = Cumulative Translation Adjustment

### Change in Deferred Taxes 2011

| EUR million | Value at 1 Jan 2011 | Income Statement | OCI | Acquisitions/ Disposals | Translation difference | Value at 31 Dec 2011 |
|---|---|---|---|---|---|---|
| Fixed assets | -548.7 | 32.6 | - | -4.7 | -1.0 | -521.8 |
| Financial instruments | -30.3 | - | 34.4 | - | - | 4.1 |
| Untaxed reserves | -11.1 | -29.6 | - | - | -0.3 | -41.0 |
| Pensions and provisions | 58.4 | 9.5 | 7.9 | 0.2 | -1.0 | 75.0 |
| Tax losses and tax credits carried forward [1] | 203.1 | -6.3 | - | - | - | 196.8 |
| Other deferred taxes | 17.0 | -10.3 | - | 0.6 | 0.5 | 7.8 |
| **Total** | **-311.6** | **-4.1** | **42.3** | **-3.9** | **-1.8** | **-279.1** |
| Equity hedges (CTA) | - | 1.5 | -1.5 | - | - | - |
| **Change in Deferred Tax** | **-311.6** | **-2.6** | **40.8** | **-3.9** | **-1.8** | **-279.1** |
| Assets [2] | 111.0 | | | | | 121.9 |
| Liabilities [2] | -422.6 | | | | | -401.0 |

[1] Tax losses with unrecognised tax value EUR 272.2 million.
[2] Deferred tax assets and liabilities have been offset in accordance with IAS 12.

The recognition of the deferred tax assets is based on the Group's estimations of future taxable profits available from which the Group can utilise the benefits.

# Note 10 Valuation Allowances

### Valuation and Qualifying Accounts

| | Inventory Obsolescence | | | | |
|---|---|---|---|---|---|
| EUR million | Spare Parts and Consumables | Finished Goods | Inventory Net Realisable Valuation | Doubtful Receivables | Total Allowances |
| **Carrying Value at 1 January 2011** | **88.6** | **11.9** | **3.7** | **40.7** | **144.9** |
| Translation difference | 0.1 | - | - | -0.6 | -0.5 |
| Company acquisitions and disposals | 0.1 | 1.5 | 0.3 | 0.4 | 2.3 |
| Charge in Income Statement | 11.1 | 2.3 | 2.0 | 5.2 | 20.6 |
| Reversal in Income Statement | -12.3 | -0.8 | -1.9 | -5.4 | -20.4 |
| **Carrying Value at 31 December 2011** | **87.6** | **14.9** | **4.1** | **40.3** | **146.9** |
| Translation difference | 1.3 | - | - | 0.4 | 1.7 |
| Company acquisitions and disposals | - | - | - | 0.3 | 0.3 |
| Charge in Income Statement | 13.7 | 1.2 | 1.9 | 5.7 | 22.5 |
| Reversal in Income Statement | -4.3 | -1.4 | -1.6 | -1.2 | -8.5 |
| **Carrying Value at 31 December 2012** | **98.3** | **14.7** | **4.4** | **45.5** | **162.9** |

Allowances related to trade receivables are discussed in more detail in Note 18 Receivables.

# Note 11 Depreciation and Fixed Asset Impairment Charges

### Depreciation and Fixed Asset Impairment Charges

| | Year Ended 31 December | |
|---|---|---|
| **EUR million** | **2012** | **2011** |
| **Depreciation** | | |
| Intangible fixed assets | 16.7 | 17.6 |
| Buildings and structures | 81.7 | 80.0 |
| Plant and equipment | 461.7 | 449.8 |
| Other tangible fixed assets | 14.3 | 13.9 |
| **Total** | **574.4** | **561.3** |
| **Impairment and Disposal Losses** | | |
| Intangible fixed assets | 6.1 | 0.1 |
| Land | 2.5 | - |
| Buildings and structures | 0.9 | 1.6 |
| Plant and equipment | 50.2 | 40.3 |
| Other tangible fixed assets | 0.5 | 3.8 |
| **Total** | **60.2** | **45.8** |
| **Reversal of Impairment** | | |
| Buildings and structures | -5.9 | -7.6 |
| Plant and equipment | -97.1 | -26.9 |
| **Total** | **-103.0** | **-34.5** |
| **Depreciation and Impairment Charges** | **531.6** | **572.6** |

## Depreciation

The total depreciation charge amounted to EUR 574.4 million and was EUR 13.1 million higher than in 2011. A breakdown of depreciation and impairment charges by segment is set out in Note 3 Segment Information.

## Impairment testing

Goodwill is tested at the level monitored by senior management, which is groups of CGUs, whereas fixed assets are tested at the CGU level, which can be a standalone mill or a group of mills. The recoverable amount of CGUs has been determined based on a value-in-use calculation using cash flow projections from financial budgets approved by senior management. The pre-tax discount rates are calculated for each unit of cash flow taking into account the tax and risk profile of the country in which the cash flow is generated, therefore a CGU may have more than one discount rate. The table in the goodwill impairment testing section below sets out the average pre-tax discount rates used for goodwill impairment testing, which are similar to those used in the fixed asset impairment testing.

Impairments were calculated with a value-in-use method for each CGU based on the following main assumptions:

- Sales price estimates in accordance with internal and external specialist analysis
- Inflation estimates of approximately 2% per year
- Current cost structure to remain unchanged
- For goodwill testing a four-year future period was used after which the perpetuity value was based on zero growth rates, whereas for fixed asset testing the period was the remaining expected economic life of the assets.

## Fixed asset impairment

The total reversal of fixed asset impairment charge during 2012 amounted to EUR 103.0 million, of which EUR 102.8 million resulted from impairment testing and EUR 0.2 million resulted from the disposal of fixed assets at several mills. The fixed asset impairment charge in 2012 amounted to EUR 60.2 million, which resulted from impairment testing and from the permanent shutdown of paper machine (PM) 1 at Hylte Mill in Sweden and other ongoing restructurings.

In 2011 EUR 34.5 million of fixed asset impairment charges were reversed as a result of impairment testing and the disposal of fixed assets at several mills. Fixed assets impairments in 2011 in respect of the Group's ongoing business amounted to EUR 45.8 million, which resulted from impairment testing and from the permanent shutdown of Kopparfors Sawmill and its pellet mill in Sweden.

## Goodwill impairment testing

There was no goodwill impairment in 2012 or 2011.

### Business Area – Groups of Cash Generating Units

| | Year Ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | | | 2011 | | |
| **EUR million** | **Goodwill at Year End** | **Impairment charge** | **Average Discount Rate** | **Goodwill at Year End** | **Impairment charge** | **Average Discount Rate** |
| Printing and Reading - Newsprint and Uncoated Magazine Paper | 83.0 | - | 8.1% | 83.0 | - | 8.5% |
| Building and Living - Central European Unit | 108.6 | - | 8.1% | 107.0 | - | 8.5% |
| Building and Living - Building Solutions | 2.9 | - | 8.1% | 2.9 | - | 8.5% |
| Renewable Packaging - Packaging Solutions | 20.0 | - | 8.1% | 20.0 | - | n/a |
| Renewable Packaging - Asia | 11.4 | - | 9.1% | 11.4 | - | n/a |
| **Goodwill** | **225.9** | **-** | | **224.3** | **-** | |

Inpac goodwill in Renewable Packaging Asia was not tested for impairment in the 2011 annual goodwill impairment testing because accounting of the acquisition was preliminary at the end of 2011.

Goodwill testing CGUs were changed in 2012 due to the reorganisation of the Group's Business Area and Reporting Segment structure. Comparative financials for 2011 have been reclassified in the previous table to reflect the current CGU structure. Newsprint and Book Paper – Europe and Magazine Paper – Uncoated have been combined to Printing and Reading – Newsprint and Uncoated Magazine Paper CGU. The change in the Group's Business Area and Reporting Segment structure is discussed in detail in Note 3.

The calculation of value in use is most sensitive to discount rate, sales price and costs. The table on the right summarises what effect a 1% change in the discount rate, 1% decrease in sales prices and 1% increase in costs would have had on the goodwill testing results.

Newsprint and Uncoated Magazine Paper is the CGU where the difference between the discounted cash flows and the carrying value of the tested assets is lowest, and hence where a change in discount rate, sales price or costs would have the most significant impact.

### Impairment Testing Sensitivity Analysis in 2012

| EUR million | Goodwill and Fixed Asset Impairment |
|---|---|
| 1% change in the discount rate | 176 |
| 1% annual decrease in the sales price | 1 342 |
| 1% annual increase in the costs | 1 182 |

### Segment Impairment and Disposal Losses Less Reversals

| | Year Ended 31 December | |
|---|---|---|
| **EUR million** | **2012** | **2011** |
| Printing and Reading | -84.4 | -2.5 |
| Biomaterials | 0.3 | -6.2 |
| Building and Living | -0.4 | 20.2 |
| Renewable Packaging | 35.5 | 2.8 |
| Other | 6.2 | -3.0 |
| **Total (impairment + / reversal -)** | **-42.8** | **11.3** |

Comparatives in the above table have been restated to reflect the current Business Area and Reporting Segment structure, which is discussed in more detail in Note 3.

# Note 12 Fixed Assets

## Fixed Asset Summary

| | Year Ended 31 December | | | |
|---|---|---|---|---|
| **EUR million** | **Property, Plant and Equipment** | **Intangible Fixed Assets** | **Goodwill** | **Total Fixed Assets** |
| **Acquisition Cost** | | | | |
| At 1 January 2012 | 17 991.6 | 365.6 | 1 170.3 | 19 527.5 |
| Translation difference | 237.1 | -1.1 | 3.7 | 239.7 |
| Reclassifications | -3.4 | 3.4 | - | - |
| Company acquisitions | 8.4 | -0.7 | 0.1 | 7.8 |
| Additions | 531.8 | 4.8 | - | 536.6 |
| Disposals | -329.0 | -16.2 | - | -345.2 |
| **At 31 December 2012** | **18 436.5** | **355.8** | **1 174.1** | **19 966.4** |
| **Accumulated Depreciation, Amortisation and Impairment** | | | | |
| At 1 January 2012 | 13 049.1 | 307.8 | 946.0 | 14 302.9 |
| Translation difference | 150.7 | -3.3 | 2.2 | 149.6 |
| Disposals | -320.4 | -16.2 | - | -336.6 |
| Company acquisitions | 1.8 | 0.1 | - | 1.9 |
| Depreciation | 557.7 | 16.7 | - | 574.4 |
| Impairment | -51.1 | 6.1 | - | -45.0 |
| **At 31 December 2012** | **13 387.8** | **311.2** | **948.2** | **14 647.2** |
| **Net Book Value at 31 December 2012** | **5 048.7** | **44.6** | **225.9** | **5 319.2** |
| **Net Book Value at 31 December 2011** | **4 942.5** | **57.8** | **224.3** | **5 224.6** |

## Property, Plant and Equipment

| | Year Ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| **EUR million** | **Land and Water** | **Buildings and Structures** | **Plant and Equipment** | **Other Tangible Assets** | **Assets in Progress** | **Total** |
| **Acquisition Cost** | | | | | | |
| At 1 January 2011 | 256.4 | 2 855.6 | 14 009.4 | 465.9 | 265.5 | 17 852.8 |
| Translation difference | -6.9 | -6.2 | 23.5 | -2.8 | -15.2 | -7.6 |
| Reclassifications | 0.9 | 40.7 | 150.8 | 0.7 | -195.9 | -2.8 |
| Company acquisitions | - | 4.4 | 34.5 | 1.4 | 1.0 | 41.3 |
| Additions | - | 27.1 | 134.9 | 4.4 | 262.6 | 429.0 |
| Disposals | -1.4 | -21.8 | -296.0 | -1.7 | -0.2 | -321.1 |
| **At 31 December 2011** | **249.0** | **2 899.8** | **14 057.1** | **467.9** | **317.8** | **17 991.6** |
| Translation difference | -3.7 | 30.3 | 193.4 | 2.5 | 14.6 | 237.1 |
| Reclassifications | - | 20.5 | 155.1 | 7.2 | -186.2 | -3.4 |
| Company acquisitions | - | 2.1 | 6.3 | - | - | 8.4 |
| Additions | 0.3 | 20.9 | 197.8 | 11.2 | 301.6 | 531.8 |
| Disposals | -0.9 | -21.9 | -295.0 | -1.4 | -9.8 | -329.0 |
| **At 31 December 2012** | **244.7** | **2 951.7** | **14 314.7** | **487.4** | **438.0** | **18 436.5** |
| | | | | | | |
| **Accumulated Depreciation, Amortisation and Impairment** | | | | | | |
| At 1 January 2011 | 49.5 | 1 826.4 | 10 549.9 | 346.9 | 13.2 | 12 785.9 |
| Translation difference | - | -1.8 | 15.8 | -3.2 | -0.5 | 10.3 |
| Disposals | - | -20.4 | -283.7 | -1.5 | -0.2 | -305.8 |
| Company acquisitions | - | 0.1 | 4.6 | 0.7 | - | 5.4 |
| Depreciation | - | 80.0 | 449.8 | 13.9 | - | 543.7 |
| Impairment | - | -6.0 | 11.8 | 3.8 | - | 9.6 |
| **At 31 December 2011** | **49.5** | **1 878.3** | **10 748.2** | **360.6** | **12.5** | **13 049.1** |
| Translation difference | 0.2 | 22.0 | 127.2 | 0.8 | 0.5 | 150.7 |
| Disposals | - | -20.7 | -289.0 | -1.3 | -9.4 | -320.4 |
| Company acquisitions | - | 0.6 | 1.2 | - | - | 1.8 |
| Depreciation | - | 81.7 | 461.7 | 14.3 | - | 557.7 |
| Impairment | 2.5 | -5.0 | -49.0 | 0.5 | -0.1 | -51.1 |
| **At 31 December 2012** | **52.2** | **1 956.9** | **11 000.3** | **374.9** | **3.5** | **13 387.8** |
| | | | | | | |
| **Net Book Value at 31 December 2012** | **192.5** | **994.8** | **3 314.4** | **112.5** | **434.5** | **5 048.7** |
| | | | | | | |
| **Net Book Value at 31 December 2011** | **199.5** | **1 021.5** | **3 308.9** | **107.3** | **305.3** | **4 942.5** |

### Capitalised Values

| | Year Ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | Computer Software | | Capitalised Interest | | Finance Leases | |
| **EUR million** | **2012** | **2011** | **2012** | **2011** | **2012** | **2011** |
| At 1 January | 27.1 | 29.9 | 54.5 | 48.2 | 76.6 | 87.3 |
| Translation difference | 0.2 | 0.1 | 1.2 | -0.4 | 0.3 | -0.1 |
| Reclassifications | 1.3 | 3.3 | - | 11.4 | - | 2.2 |
| Acquisitions and disposals | - | - | - | - | - | -0.2 |
| Capitalised in the year | 1.8 | 4.8 | 8.8 | 1.9 | 1.0 | 0.5 |
| Amortisation | -9.2 | -11.0 | -6.8 | -6.6 | -12.4 | -13.1 |
| **At 31 December** | **21.2** | **27.1** | **57.7** | **54.5** | **65.5** | **76.6** |

Computer software includes EUR 9.1 (EUR 10.4) million of capitalised own software at the year end; additions during the year were EUR 0.8 (EUR 2.8) million and depreciation was EUR 2.8 (EUR 1.5) million.

## Fixed asset additions

Acquisitions of Group companies in 2012 included EUR 5.9 (EUR 63.3) million of fixed assets therein with EUR 0.1 (EUR 11.3) million of goodwill. This is discussed in more detail in Note 4 Acquisitions and Disposals.

Total capital expenditure for the year in Stora Enso Oyj and its subsidiaries amounted to EUR 536.6 (EUR 436.1) million. Details of ongoing projects and future plans are discussed in more detail in the Report of the Board of Directors.

## Fixed asset disposals

There were no fixed asset disposals from divestments of Group companies in 2012.

Other sundry asset proceeds from disposals totalling EUR 5.7 million are mainly minor sales in the normal course of operations. Most of the other EUR 17.6 million of proceeds from disposals in 2011 was accounted for by:

- EUR 6.1 million from the sale of three paper machines from the former Summa Mill and from the Varkaus Mill, which had been closed down earlier;
- other sundry asset disposals totalling EUR 11.5 million, mainly minor sales in the normal course of operations.

# Note 13 Biological Assets

Most Group interests in biological assets are held in equity accounted investments in Brazil, Finland, Sweden and Uruguay, thus the values directly disclosed in the financial statements for biological assets are limited. Whereas the Group's indirect share of biological assets held by equity accounted investments amounts to EUR 2 338.0 (EUR 2 238.2) million for the standing trees the amount directly disclosed in the Group Statement of Financial Position from subsidiary companies amounts to only EUR 221.7 (EUR 212.6) million as shown below. The amount of land area is 136 000 hectares and majority of the land is leased.

### Biological Assets

| | Year Ended 31 December | |
|---|---|---|
| **EUR million** | **2012** | **2011** |
| **Carrying Value at 1 January** | **212.6** | **190.5** |
| Translation difference | -5.6 | 10.0 |
| Additions | 19.7 | 17.2 |
| Decrease due to harvest and damage | -5.0 | -5.1 |
| **Carrying Value at 31 December** | **221.7** | **212.6** |

During 2012 the main additions related to the continuing development of eucalyptus plantations in Guangxi in China. The biological assets in Guangxi are currently carried at cost because if Stora Enso should not be able to build a mill, the biological assets must be returned to the local government at cost. The carrying value at 31 December 2012 was EUR 183.9 (EUR 172.7) million.

At 31 December 2012 Stora Enso's biological assets had a fair value of EUR 221.7 (EUR 212.6) million and were located by value in China 83% (81%), Brazil 15% (17%) and other 2% (2%). In addition the Group has five equity accounted investments holding biological assets:

- Bergvik Skog AB (Bergvik Skog), the 43.26% owned Swedish associate company, had biological assets with a fair value of EUR 3 879.0 (EUR 3 632.7) million, of which Stora Enso's share was EUR 1 678.0 (EUR 1 571.5) million.
- Tornator Oyj (Tornator), a 41% owned Finnish associate company, had biological assets with a fair value of EUR 952.1 (EUR 950.9) million, of which Stora Enso's share was EUR 390.4 (EUR 389.9) million.
- Veracel Celulose S.A. (Veracel), a 50% joint-venture company in Brazil, had biological assets fair valued at EUR 274.6 (EUR 309.3) million, of which Stora Enso's share was EUR 137.3 (EUR 154.7) million.
- Montes del Plata, a 50% joint-venture in Uruguay, had biological assets with a fair value of EUR 229.9 (EUR 206.4) million, of which Stora Enso's share was EUR 114.9 (EUR 103.2) million.
- Arauco Florestal Arapoti S.A., the 20% owned southern Brazilian associate company, had biological assets with a fair value of EUR 87.1 (EUR 94.7) million, of which Stora Enso's share was EUR 17.4 (EUR 18.9) million.

# Note 14 Equity Accounted Investments

### Carrying Values of Equity Accounted Investments

| | Year Ended 31 December | |
|---|---|---|
| **EUR million** | **2012** | **2011** |
| At 1 January | 1 214.1 | 1 084.5 |
| Translation difference | 1.7 | 1.8 |
| Additions | 114.5 | 128.6 |
| Disposal proceeds and equity repayment [1)] | -2.2 | -1.0 |
| Income Statement - Profit on disposal | - | 0.2 |
| Subsidiary transfers and disposal adjustment | -0.3 | - |
| **Historical Cost at 31 December** | **1 327.8** | **1 214.1** |
| | | |
| **Equity Adjustments** | | |
| At 1 January | 699.0 | 659.5 |
| Translation difference | -55.7 | -34.8 |
| Share of results | 107.7 | 117.8 |
| Dividends received | -107.0 | -24.1 |
| OCI | -4.2 | -19.4 |
| Subsidiary transfers and disposal adjustment | -2.5 | - |
| **Equity Adjustment at 31 December** | **637.3** | **699.0** |
| | | |
| **Carrying Value at 31 December** | **1 965.1** | **1 913.1** |

1) 2011 disposal proceeds are fully non-cash.

The Group's share of results in equity accounted investments is reported in operating profit to reflect the operational nature of these investments, especially those in wood and pulp supply. There is no material goodwill in respect of equity accounted investments either held in the Statements of Financial Position of those companies or in the ownership of them.

### Principal Equity Accounted Investments

| | | | As at 31 December | |
|---|---|---|---|---|
| | | % | EUR million | |
| **Company** | **Domicile** | **2012** | **2012** | **2011** |
| Bergvik Skog AB: forest | Sweden | 43.26 | 697.0 | 634.2 |
| Veracel Celulose S.A.: pulp mill and plantation | Brazil | 50.00 | 530.4 | 587.9 |
| Montes del Plata: pulp mill project and plantation | Uruguay | 50.00 | 494.2 | 404.9 |
| Tornator Oyj: forest | Finland | 41.00 | 169.4 | 176.5 |
| Arauco Florestal Arapoti S.A.: plantation | Brazil | 20.00 | 24.6 | 27.0 |
| Thiele Kaolin Company Inc: china clay | USA | 39.99 | 18.6 | 41.4 |
| | | | **1 934.2** | **1 871.9** |
| Others | | | 30.9 | 41.2 |
| **Carrying Value at 31 December** | | | **1 965.1** | **1 913.1** |

Stora Enso acquired the remaining 50% of the shares in RETS Timber Oy Ltd with effect from 1 September 2012, increasing the Group's shareholding to 100%. At the acquisition date the value of the Group's 50% shareholding amounted to EUR 2.8 million. Prior to the acquisition, RETS Timber Oy Ltd was accounted for with the equity accounting method, but since the acquisition date the company has been consolidated as a subsidiary in the Group's financial statements. There were no major changes in the ownership of equity accounted investments during 2011. The 2012 and 2011 additions in equity accounted investments are due to equity injections into Montes del Plata.

Stora Enso has set up a jointly owned company, NSE Biofuels Oy Ltd, with Neste Oil Oyj to develop biofuel production at Varkaus Mill in Finland. During 2010 a EUR 10 million loan to NSE Biofuels Oy was converted into equity and in the fourth quarter of 2010 Stora Enso recorded a EUR 15.3 million write-down of these shares, resulting in an equity value for this investment of EUR 1.0 million. In August 2012 Stora Enso announced that the Group and Neste Oil had decided not to proceed with the plans to build a biodiesel plant. During 2012 EUR 1.5 million of the 2010 write-downs were reversed and Stora Enso received a capital repayment of EUR 2.0 million from NSE Biofuels Ltd. At the year end 2012 the value of the shares amounted to EUR 0.5 (EUR 1.0) million.

The average number of personnel in the equity accounted investments was 5 270 in 2012, compared with 5 060 in 2011.

### Group Share of Equity Accounted Investment Income Statements

| | Year Ended 31 December | |
|---|---|---|
| **EUR million** | **2012** | **2011** |
| Turnover | 789.6 | 682.5 |
| Cost of sales | -679.9 | -569.1 |
| **Trading Profit** | **109.7** | **113.4** |
| IAS 41 Valuation | 22.6 | 98.0 |
| **Operating Profit** | **132.3** | **211.4** |
| Net financial items | -73.2 | -53.9 |
| **Net Profit before Tax** | **59.1** | **157.5** |
| Tax | 48.6 | -39.7 |
| **Net Profit for the Period** | **107.7** | **117.8** |

In January 2011 Stora Enso announced that Montes del Plata would build a new state-of-the-art 1.3 million tonnes per year pulp mill at Punta Pereira, in the department of Colonia, Uruguay. The mill is expected to start up approximately mid-year 2013.

During 2009, Stora Enso and Celulosa Arauco y Constitucion S.A. (Arauco) established a joint venture company to combine their assets in Uruguay to facilitate the joint acquisition of Grupo ENCE assets in Uruguay. The Group contributed 100% of Stora Enso Uruguay S.A. shares to Forestal Cono Sur S.A. (FCS), Arauco's 100% subsidiary in Uruguay, in return for 50% of the shares in FCS. Arauco and Stora Enso then jointly acquired the majority of Spanish pulp producer ENCE's operations in Uruguay through the acquisition of three separate legal entities. Although the legal structure comprises four separate entities, each owned on a 50:50 basis, they are run as one operation under the name Montes del Plata. The joint venture comprises around 246 300 hectares of owned land and 23 600 hectares of leased land around half of which is already planted with pine and eucalyptus. In 2012, the Group's share of Montes del Plata's loss came to EUR 14.5 (loss EUR 10.1) million, including a forest valuation loss of EUR 0.7 (loss EUR 0.4) million, and the Group's shareholding was valued at EUR 494.2 (EUR 404.9) million at the year end 2012.

Stora Enso and its Brazilian partner Fibria (formerly Aracruz Celulose S.A.) have established a eucalyptus plantation currently encompassing 211 380 hectares, of which 90 410 hectares are planted, and constructed a 1.1 million tonnes per year pulp mill for their jointly-owned equity accounted investment Veracel. Each company has a 50% stake and is entitled to half of the mill's output. In 2012, the Group's share of the profit was EUR 5.4 (loss EUR 6.0) million inclusive of a forest valuation loss of EUR 13.0 (gain EUR 2.4) million, and the year end carrying value amounted to EUR 530.4 (EUR 587.9) million at the year end 2012.

In 2004, 56.7% of Stora Enso's Swedish forest holding company Bergvik Skog was divested to institutional investors leaving the Group with a minority shareholding of 43.26% valued at EUR 697.0 (EUR 634.2) million at the year end 2012. In 2012, the Group's share of Bergvik Skog's profit came to EUR 108.2 (EUR 99.2) million, including a forest valuation gain of EUR 39.7 (EUR 83.3) million. In November 2012 the Swedish Parliament enacted a tax rate change from 26.3% to 22.0%. As a result of the application of the new tax rate to Swedish deferred tax assets and liabilities, Bergvik Skog recognised a gain in its income statement of which Stora Enso's share amounted to approximately EUR 69.2 million.

Stora Enso's Finnish forest holdings were divested into an equity accounted investment, Tornator, in 2002. The Group's 41% residual interest was worth EUR 169.4 (EUR 176.5) million at the year end 2012. In 2012, the Group's share of Tornator's loss came to EUR 2.1 (profit EUR 24.6) million, including a forest valuation loss of EUR 3.4 (gain EUR 10.4) million.

### Group Share of Equity Accounted Investment Statements of Financial Position

| | As at 31 December | |
|---|---|---|
| **EUR million** | **2012** | **2011** |
| Fixed assets | 1 445.6 | 1 138.6 |
| Biological assets | 2 338.0 | 2 238.2 |
| Operative receivables: | | |
| Non-current | 98.1 | 132.1 |
| Current | 141.9 | 115.1 |
| Inventories | 69.2 | 64.0 |
| Cash | 123.5 | 56.6 |
| **Total Assets** | **4 216.3** | **3 744.6** |
| **Liabilities** | | |
| Operative Liabilities: | | |
| Non-current | 100.3 | 74.2 |
| Current | 188.6 | 167.9 |
| Debt: | | |
| Non-current | 1 351.5 | 954.9 |
| Current | 188.1 | 157.9 |
| Tax liabilities | 422.7 | 476.6 |
| **Total Liabilities** | **2 251.2** | **1 831.5** |
| **Net Equity in the Group Statement of Financial Position** | **1 965.1** | **1 931.1** |
| **Represented by** | | |
| Capital and Reserves | 1 998.5 | 1 942.3 |
| OCI | -33.4 | -29.2 |
| **Equity Accounting Value** | **1 965.1** | **1 913.1** |

### Equity Accounted Investment Company Balances

| | As at 31 December | |
|---|---|---|
| **EUR million** | **2012** | **2011** |
| **Receivables from Equity Accounted Investments** | | |
| Non-current loan receivables | 122.8 | 116.7 |
| Trade receivables | 8.2 | 11.1 |
| Current loan receivables | 95.7 | 53.5 |
| Prepaid expenses and accrued income | 12.1 | 0.5 |
| **Liabilities due to Equity Accounted Investments** | | |
| Trade payables | 76.5 | 58.5 |
| Accrued liabilities and deferred income | 0.2 | 0.6 |

### Equity Accounted Investment Transactions

| | Year Ended 31 December | |
|---|---|---|
| **EUR million** | **2012** | **2011** |
| Sales to equity accounted investments | 103.1 | 129.6 |
| Interest on loan receivables from equity accounted investments | 11.5 | 10.0 |
| Purchases from equity accounted investments | 339.4 | 374.2 |

The Group engages in transactions with equity accounted investments such as sales of wood material and purchases of wood, energy and pulp products. All agreements in Europe are negotiated at arm's length and are conducted on terms that the Group considers customary in the industry and generally no less favourable than would be available from independent third parties.

Total loans including interest receivable to equity accounted investments came to EUR 218.5 (EUR 170.2) million, of which EUR 95.4 (EUR 88.1) million was due from Bergvik Skog, EUR 26.5 (EUR 26.8) million from Tornator and EUR 89.7 (EUR 51.0) million from Montes del Plata. Interest income on loans to equity accounted investments totalled EUR 11.5 (EUR 10.0) million, of which EUR 7.7 (EUR 7.3) million came from Bergvik Skog, EUR 0.9 (EUR 0.9) million from Tornator and EUR 3.0 (EUR 1.5) million from Montes del Plata.

# Note 15 Available-for-Sale Investments

The Group classifies its investments into three categories: trading, held-to-maturity and available-for-sale. At the reporting date the Group held only available-for-sale investments. All available-for-sale investments are considered to be non-current assets unless they are expected to be realised within twelve months.

### Summary of Values

| | Year Ended 31 December | |
|---|---|---|
| **EUR million** | **2012** | **2011** |
| Acquisition cost at 1 January | | |
| Interest-bearing securities | 76.1 | 68.7 |
| Operative securities | 104.0 | 106.8 |
| Investments classified as available-for-sale | 180.1 | 175.5 |
| OCI in opening balance | 542.1 | 782.6 |
| **Available-for-Sale Investments at 1 January** | **722.2** | **958.1** |
| Translation difference | 0.5 | -0.1 |
| Accrued interest on PIK Notes | 9.9 | 7.5 |
| Additions | 0.3 | 0.6 |
| Change in fair values accounted for as OCI | -177.6 | -240.5 |
| Disposal proceeds | -0.5 | -1.0 |
| Income Statement - gains and losses | -8.3 | -2.4 |
| **Carrying Amount at 31 December** | **546.5** | **722.2** |

### Unrealised Gains and Losses on Securities

| | Year Ended 31 December | |
|---|---|---|
| **EUR million** | **2012** | **2011** |
| Net Unrealised Holding Gains (OCI) | 364.5 | 542.1 |
| Cost | 182.0 | 180.1 |
| **Market Value** | **546.5** | **722.2** |
| Net unrealised holding gains (OCI) | 364.5 | 542.1 |
| Deferred tax | -2.3 | -1.5 |
| **Net Unrealised Holding Gains Shown in Equity as OCI** | **362.2** | **540.6** |
| **Change in Net Unrealised Holding Gains Shown in Equity as OCI** | **-178.4** | **-239.4** |

Stora Enso is holding a Payment-In-Kind (PIK) note issued by Papyrus Holding AB. On 30 April 2008 Stora Enso completed the divestment of its merchant business Papyrus to Altor Fund II, a private equity venture. Part of the consideration comprised a PIK Note issued by the Altor subsidiary Papyrus Holding AB with a nominal value of EUR 57.3 million that was fair valued on receipt at EUR 50.4 million. The PIK Note is subordinate to senior debt in the purchaser but it has priority over equity holders and matures on 7 May 2017. Interest accrues at the rate of 9% for the first three years of the Note and higher for later periods reaching 15% in 2013, and is added in arrears to the principal of the PIK Note. Mandatory repayment of the PIK Note is required if Altor disposes of more than 50% of the shares in Papyrus or 40% of the assets, or if there is an IPO. The PIK Note at year end had a nominal value of EUR 89.5 million including capitalised interest and a fair value of EUR 89.6 million.

In December 2007 Stora Enso finalised the divestment of Stora Enso North America Inc. (SENA) to NewPage with part of the consideration comprising a PIK note with nominal value of USD 200 million and 19.9% of the shares in NewPage Corporation. In September 2011, NewPage Corporation voluntarily filed for Chapter 11 protection under the US Bankruptcy Code to reorganise its debt. The PIK note had a subordinated status in relation to normal debt and in the final settlement agreement in December 2012, Stora Enso's rights and obligations in relation to PIK note and equity interest ceased to exist. In addition, Stora Enso recorded EUR 10.5 million financial income from NewPage Corporation as a result of the settlement agreement. The fair values of the shareholding and PIK note had remained at zero since 2009.

## PVO shares

The Group holds a 14.8% interest in Pohjolan Voima Oy (PVO), a privately owned group of companies in the energy sector that produces electricity and heat for its shareholders in Finland. Each subsidiary of the PVO group has its own class of shares that entitle the shareholder to the energy produced in proportion to its ownership of that class of share. The shareholders then have an obligation to cover the costs of production, which are generally lower than market prices. The holding is fair valued quarterly using an average of three methods: the discounted cash flow model, trading and precedent transaction multiples.

The electricity prices in the model are based on Nordpool prices. Future derivative prices are used in the first five years of the model and thereafter increased by an inflation factor that is in line with the European Central Bank estimate. The historical financial statements provide the basis for the cost structure for each of the power assets, which are adjusted by the inflation factor in future years. The discount rate of 4.13% used in the DCF is determined using the weighted average cost of capital method. The trading and transaction multiples are derived from a peer group of European companies operating power assets similar to PVO's. A +/- 5% change in the electricity price used in the DCF would change the valuation by +/- EUR 79 million and a +/- 1% change in the discount rate would change the valuation by -/+ EUR 86 million.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33

### PVO Shareholding at 31 December 2012

| EUR million | Share Series | % Holding | Asset Category | Fair Value |
|---|---|---|---|---|
| PVO-Vesivoima Oy | A | 20.6 | Hydro | 111.9 |
| Teollisuuden Voima Oy | B | 15.7 | Nuclear | 228.1 |
| Teollisuuden Voima Oy | B2 | 14.8 | Nuclear under construction | 93.4 |
| Other | C,C2,V,H,M | Various | Various | 7.1 |
| **Total** | | | | **440.5** |

The valuation in 2012 amounted to EUR 440.5 (EUR 625.7) million against a book value of EUR 85.8 (EUR 89.5) million, with the revaluation of EUR 354.7 (EUR 536.2) million being taken to OCI. The change in PVO's value is mainly caused by changes in electricity prices. No deferred tax is appropriate as under Finnish tax regulations holdings above 10% are exempt from tax on disposal proceeds.

In April 2011 Pohjolan Voima Oy announced that it had sold its shareholding in Fingrid, the electricity transmission system operator in Finland. The transaction value was EUR 325 million and PVO recorded a capital gain of approximately EUR 200 million. In May 2012 Stora Enso received a dividend of EUR 40.7 million as a result of Fingrid sale. In 2012 Stora Enso recorded a write-down of EUR 3.7 million in relation to one power plant in Finland.

### Principal Available-for-Sale Investments

| | | | As at 31 December 2012 | |
|---|---|---|---|---|
| **EUR million** | **Holding %** | **Number of Shares** | **Acquisition Cost** | **Market Value** |
| Packages Ltd, Pakistan - listed security | | 5 396 650 | 3.8 | 6.3 |
| Papyrus PIK Note - unlisted interest-bearing security | | | 82.3 | 89.6 |
| **Total Interest-Bearing Securities** | | | **86.1** | **95.9** |
| Pohjolan Voima Oy - unlisted security | 14.8 | 5 381 293 | 85.8 | 440.5 |
| Others - unlisted securities | n/a | Various | 10.1 | 10.1 |
| **Total Operative Securities** | | | **95.9** | **450.6** |
| **Total Available-for-Sale Investments at 31 December 2012** | | | **182.0** | **546.5** |
| **Total Available-for-Sale Investments at 31 December 2011** | | | **180.1** | **722.2** |

The difference of EUR 364.5 (EUR 542.1) million between the initial fair value at acquisition and reporting date market value of the Available-for-Sale Investments represents the OCI Reserve as shown in the Statement of Changes in Equity. Euro-denominated assets comprise 98.8% (99.5%) of Available-for-Sale Investments.

# Note 16 Other Non-Current Assets

| | As at 31 December | |
|---|---|---|
| **EUR million** | **2012** | **2011** |
| Defined benefit plan assets (Note 21) | - | 2.4 |
| Prepaid expenses and accrued income | 0.1 | 5.8 |
| Kotka earn-out receivable | 3.5 | 8.6 |
| Other non-current operative assets | 19.5 | 9.8 |
| **Total** | **23.1** | **26.6** |

In 2012, EUR 2.0 (EUR 4.0) million of the earn-out component related to the disposal of the integrated mills at Kotka is included in the current other receivables in Note 18 Receivables.

# Note 17 Inventories

| | As at 31 December | |
|---|---|---|
| **EUR million** | **2012** | **2011** |
| Materials and supplies | 343.8 | 400.6 |
| Work in progress | 80.3 | 68.7 |
| Finished goods | 703.9 | 713.0 |
| Spare parts and consumables | 282.6 | 275.2 |
| Other inventories | 16.5 | 27.7 |
| Advance payments and cutting rights | 147.8 | 150.1 |
| Obsolescence allowance - spare parts and consumables | -98.3 | -87.6 |
| Obsolescence allowance - finished goods | -14.7 | -14.9 |
| Net realisable value allowance | -4.4 | -4.1 |
| **Total** | **1 457.5** | **1 528.7** |

# Note 18 Receivables

### Current Operative Receivables

| EUR million | As at 31 December 2012 | 2011 |
|---|---|---|
| Trade receivables | 1 401.9 | 1 427.4 |
| Allowance for doubtful debts | -45.5 | -40.3 |
| Prepaid expenses and accrued income | 166.6 | 104.2 |
| TRS Hedges | 2.6 | - |
| Other receivables | 162.6 | 163.3 |
| **Total** | **1 688.2** | **1 654.6** |

Due to their short-term nature the carrying amounts of the above receivables are a reasonable approximation to their fair value. Any longer-term receivables falling due after one year are included in non-current receivables.

### Currency Breakdown of Current Operative Receivables

| EUR million | As at 31 December 2012 | 2011 |
|---|---|---|
| EUR | 828.6 | 865.6 |
| USD | 188.6 | 184.4 |
| SEK | 288.3 | 265.8 |
| CNY | 79.3 | 99.2 |
| GBP | 58.6 | 91.0 |
| Other currencies | 244.8 | 148.6 |
| **Total** | **1 688.2** | **1 654.6** |

The majority of the operative receivables denominated in US dollars or British pounds are held in Group companies that have the euro and Swedish krona as their functional currencies. As at 31 December 2012, EUR 116.9 (EUR 109.9) million of trade receivables were overdue, for which no allowance has been made. These relate to a number of different countries and unrelated customers that have no recent history of default. The age analysis of these trade receivables, net of allowance for doubtful debts, is as follows:

### Age Analysis of Trade Receivables, Net of Allowance for Doubtful Debts

| EUR million | As at 31 December 2012 | 2011 |
|---|---|---|
| Less than 30 days overdue | 94.3 | 86.1 |
| 31 to 60 days overdue | 7.2 | 9.1 |
| 61 to 90 days overdue | 2.8 | 4.0 |
| 91 to 180 days overdue | 5.1 | 3.3 |
| Over 180 days overdue | 7.5 | 7.4 |
| **Total: Overdue Accounts** | **116.9** | **109.9** |
| Trade Receivables within their credit terms | 1 239.5 | 1 277.2 |
| **Total** | **1 356.4** | **1 387.1** |

Credit losses amounted to EUR 5.8 (EUR 5.2) million, which resulted in a net increase in the allowance for doubtful debts of EUR 5.2 (decrease EUR 0.4) million – see Note 25 Financial Risk Management for details of customer credit risk management. All allowances are made on an individual basis and are regularly reviewed for changes in the financial positions of customers. If the Group has concerns as to the financial state of a customer, an advance payment or a letter of credit that must be irrevocable and drawn on a bank is required. At the year end the letters of credit awaiting maturity totalled EUR 42.8 (EUR 37.3) million.

At 31 December 2012 allowances related to overdue trade receivables totalled EUR 45.5 (EUR 40.3) million. The age of the receivables under the doubtful accounts is shown in the table below.

### Age Analysis of Doubtful Accounts

| | As at 31 December | |
|---|---|---|
| **EUR million** | **2012** | **2011** |
| Less than 90 days | 3.4 | 1.4 |
| 91 to 180 days | 2.0 | 1.5 |
| Over 180 days | 40.1 | 37.4 |
| **Total** | **45.5** | **40.3** |

### Interest-Bearing Receivables

| | As at 31 December | |
|---|---|---|
| **EUR million** | **2012** | **2011** |
| Derivatives (see Note 28) | 182.9 | 195.0 |
| Loans to equity accounted investments | 218.5 | 170.3 |
| Other loan receivables | 29.8 | 41.5 |
| **Total** | **431.2** | **406.8** |
| | | |
| Current Assets: Receivable within 12 months | 297.0 | 281.5 |
| Non-current Assets: Receivable after 12 months | 134.2 | 125.3 |
| **Total** | **431.2** | **406.8** |

Annual interest rates for loan receivables at 31 December 2012 ranged from 0.0% (0.4%) to 8.5% (8.5%). Due to the nature of the Group financial assets their carrying value is considered to approximate their fair value with the exception of the equity accounted investment loan to Bergvik Skog, which has a fair value at year end of EUR 108.0 (EUR 103.3) million against a carrying value of EUR 91.5 (EUR 88.1) million. Current interest-bearing receivables include accrued interest of EUR 37.9 (EUR 33.9) million, of which EUR 37.4 (EUR 22.7) million relates to interest rate derivatives.

# Note 19 Shareholders' Equity

At 31 December 2012 shareholder equity amounted to EUR 5 784.5 (EUR 5 872.7) million, compared with market capitalisation on NASDAQ OMX Helsinki of EUR 4.2 (EUR 3.7) billion. The market values of the shares were EUR 5.70 (EUR 5.03) for A shares and EUR 5.25 (EUR 4.63) for R shares.

The A shares entitle the holder to one vote per share whereas R shares entitle the holder to one vote per ten shares with a minimum of one vote, though the accountable par of both shares is the same. A shares may be converted into R shares at any time at the request of a shareholder. At 31 December 2012 the Company's fully paid-up share capital as entered in the Finnish Trade Register was EUR 1 342.2 million (EUR 1 342.2 million). The current accountable par of each issued share is EUR 1.70 (EUR 1.70).

Stora Enso Oyj held shares with an acquisition cost of EUR 10.2 million, comprising 918 512 R shares at the end of 2012. The accountable par of the shares was EUR 1.6 million, representing 0.12% of the share capital and 0.04% of voting rights.

At the end of 2012 Directors and Group Executive Team members owned 2 541 (2 541) A shares and 630 922 (664 657) R shares, representing 0.03% of the total voting rights of the Company. Full details of Director and Executive interests are shown in Note 7 Board and Executive Remuneration. A full description of Company Option Programmes is shown in Note 22 Employee Variable Compensation and Equity Incentive Schemes. However, none of these have any impact on the issued share capital.

### Change in Share Capital

| | A shares | R shares | Total |
|---|---|---|---|
| **At 1 January 2011** | **177 149 784** | **612 388 715** | **789 538 499** |
| Conversion of A shares to R shares 16 May | -762 | 762 | - |
| Conversion of A shares to R shares 15 Nov | -250 | 250 | - |
| **At 31 December 2011** | **177 148 772** | **612 389 727** | **789 538 499** |
| Conversion of A shares to R shares 16 Jan | -1 000 | 1 000 | - |
| **At 31 December 2012** | **177 147 772** | **612 390 727** | **789 538 499** |
| **Number of votes as at 31 December 2012** | **177 147 772** | **61 239 072**[1] | **238 386 844** |
| **Share Capital at 31 December 2012, EUR million** | **301.2** | **1 041.0** | **1 342.2** |
| **Share Capital at 31 December 2011, EUR million** | **301.2** | **1 041.0** | **1 342.2** |

1) R share votes are calculated by dividing the number of R shares by 10.

The shares in issue at 11 April 2013 will represent the total shares eligible to vote at the forthcoming Annual General Meeting.

# Note 20 Non-Controlling Interests

### Non-Controlling Interests

| | Year Ended 31 December | |
|---|---|---|
| **EUR million** | **2012** | **2011** |
| At 1 January | 87.1 | 51.8 |
| Translation difference | -3.2 | - |
| Non-controlling interests in companies acquired less disposals | 0.2 | 37.6 |
| Buy-out of non-controlling interests | - | -0.4 |
| Gain to Retained Earnings on buy-outs | - | -0.8 |
| Share of profit for the period | 9.9 | 2.5 |
| Dividends | -2.5 | -3.6 |
| **At 31 December** | **91.5** | **87.1** |

### Principal Non-Controlling Interests

| | | As at 31 December | |
|---|---|---|---|
| **EUR million** | | **2012** | **2011** |
| Stora Enso Inpac Packaging Group | China, Korea and India | 35.9 | 36.4 |
| Stora Enso Arapoti Industria de Papel SA | Brazil | 25.8 | 21.8 |
| Stora Enso Huatai Paper Co Ltd | China | 16.7 | 16.7 |
| Corenso United Oy Group | China | 6.0 | 5.7 |
| Others | - | 7.1 | 6.5 |
| | | **91.5** | **87.1** |

In January 2012 Stora Enso acquired 51% of the shares in Danfiber A/S. The non-controlling interest has been valued as the proportionate share of the acquiree's net assets, and amounted to EUR 0.4 million as at 31 December 2012.

In July 2011 Stora Enso completed the acquisition of 51% of the shares in the Chinese packaging company Inpac International Print & Packaging Co., Ltd., which was subsequently renamed Stora Enso Inpac Packaging Co. Ltd. The non-controlling interests in the companies related to the Inpac group have been valued as the proportionate share of the acquiree's net assets, and amounted to EUR 36.4 million as at 31 December 2011. The Inpac acquisition accounting was finalised in the third quarter of 2012. During 2012 there was only a minor adjustment to the provisional non-controlling interest at the end of 2011 previously presented.

In 2011 there were non-controlling interest buy-outs amounting to EUR 0.4 million related to Design Force AB. A gain of EUR 0.8 million was recorded in retained earnings related to the buy-outs.

# Note 21 Post-Employment Benefits

The Group has established a number of pension and other benefit plans for its operations throughout the world, the cost of which amounted to EUR 163.4 (EUR 172.6) million in 2012, as shown in Note 6 Staff Costs. The majority of plans are defined contribution schemes, the charge for which amounted to EUR 145.7 (EUR 154.6) million.

The retirement age for the management of Group companies has been agreed at between 60 and 65 years, though members of the Group Executive Team have the right to retire at 60. The retirement age for other staff either follows national retirement ages or is determined by local labour agreements. In the latter case, there may be certain pre-retirement liabilities accruing to the Company to cover the income of the early retirees between the age at which they ceased working and the national retirement age.

Stora Enso's total defined benefit obligations to current and former members of staff amount to EUR 1 289.6 (EUR 1 103.0) million though assets of EUR 827.4 (EUR 773.5) million have been put aside in various pension schemes to cover these liabilities. The net funding position of the defined benefit plans are shown in full in the Statement of Financial Position and amount to EUR 462.2 million in 2012, an increase of EUR 130.8 million on the previous year's liability of EUR 331.4 million. This increase is mainly caused by decreased discount rates in Finland, Germany, United Kingdom and Sweden, implementation of new mortality tables in Sweden and a reduction in the insured pension increase in Finland. The 2012 defined benefit expense in the Income Statement amounts to EUR 17.7 million and the actuarial losses recorded in Other Comprehensive Income amount to EUR 167.3 million. The 2011 defined benefit expense in the Income Statement amounted to EUR 18.0 million and the actuarial losses recorded in Other Comprehensive Income amounted to EUR 55.8 million.

### Actuarial Losses Recognised Directly in Equity

| | Year Ended 31 December | |
|---|---|---|
| | Total Operations | |
| **EUR million** | **2012** | **2011** |
| Actuarial losses | -167.3 | -55.8 |
| Deferred tax thereon | 32.0 | 7.9 |
| **Total** | **-135.3** | **-47.9** |

Group policy for funding deficits is intended to satisfy local statutory funding requirements for tax deductible contributions together with adjusting to market rates the discount factors used in the actuarial calculations. However, the emphasis of the Group is to provide defined contribution schemes for its post-employment benefits, thus all aspects of the provision and accounting for defined benefit schemes are being evaluated.

In the Group Statement of Financial Position the full liability for all plan deficits is recorded, as adjusted if required for any past service costs still to be amortised. The Group Statement of Financial Position fully reflects the actual surplus or deficits in its defined benefit plans thereby aligning the net liability in the Statement of Financial Position. Details of the pension arrangements, assets and investment policies in the Group's main operating countries are shown on the following page.

### Defined Benefit Plan Summary by Country

| EUR million | As at 31 December 2012 Finland | Germany | Sweden | Other | Total |
|---|---|---|---|---|---|
| Defined Benefit Obligations (DBO) | 414.0 | 289.0 | 410.2 | 176.4 | 1 289.6 |
| Fair value of plan assets | 369.0 | 6.3 | 318.8 | 133.3 | 827.4 |
| Funded status | 45.0 | 282.7 | 91.4 | 43.1 | 462.2 |
| Effect of asset ceiling | - | - | - | - | - |
| **Net Liability in Defined Benefit Plans** | **45.0** | **282.7** | **91.4** | **43.1** | **462.2** |

| EUR million | As at 31 December 2011 Finland | Germany | Sweden | Other | Total |
|---|---|---|---|---|---|
| Defined Benefit Obligations (DBO) | 387.0 | 261.0 | 298.1 | 156.9 | 1 103.0 |
| Fair value of plan assets | 359.4 | 5.8 | 281.6 | 126.7 | 773.5 |
| Funded status | 27.6 | 255.2 | 16.5 | 30.2 | 329.5 |
| Effect of asset ceiling | - | - | - | 1.9 | 1.9 |
| **Net Liability in Defined Benefit Plans** | **27.6** | **255.2** | **16.5** | **32.1** | **331.4** |

The asset and liability figures for Sweden in 2012 include a plan not previously recognised within the pensions note (Assets in 2012 EUR 6.0 million (in 2011 EUR 7.4 million - EUR 1.9 million not recognised due to asset restriction); Liabilities in 2012 EUR 6.6 million (in 2011 EUR 5.5 million)).

## Finland

The Group funds its Finnish pension obligations mainly through defined contribution schemes, the charge in the Income Statement being EUR 45.6 (EUR 68.8) million. By contrast, the remaining obligations covered by defined benefit schemes resulted in a charge of EUR 2.2 (EUR 2.6) million. Pension cover since 2001 has been organised entirely through local insurance companies. The total defined benefit obligation amounts to EUR 414.0 (EUR 387.0) million and the assets to EUR 369.0 (EUR 359.4) million, leaving a net liability of EUR 45.0 (EUR 27.6) million. As state pensions in Finland provide by far the greatest proportion of pensions, Group liabilities are proportionately much smaller than in comparable countries.

Plan assets in Finland are managed by insurance companies. Details of the exact structure and investment strategy surrounding plan assets are not available to participating employers as the assets actually belong to the insurance companies themselves. The assets are managed in accordance with EU regulations, and also national requirements, under which there is an obligation to pay guaranteed benefits irrespective of market conditions.

## Germany

German pension costs amounted to EUR 24.5 (EUR 25.7) million, of which EUR 12.3 (EUR 12.3) million related to defined contribution schemes and EUR 12.2 (EUR 13.4) million to defined benefits. The total defined benefit obligation is EUR 289.0 (EUR 261.0) million, nearly all of which is unfunded as total assets come to only EUR 6.3 (EUR 5.8) million. Defined benefit pension plans are mainly accounted for in the Statement of Financial Position through book reserves with some minor plans using insurance companies or independent trustees. Retirement benefits are based on years worked and salaries received during the pensionable service, the commencement of pension payments being co-ordinated with the national pension scheme retirement age. Pensions are paid directly by the companies themselves to their former employees, this amounting to cash costs of EUR 19.1 (EUR 19.3) million; the security for the pensioners is provided by the legal requirement that the book reserves held in the Statement of Financial Position are insured up to certain limits.

## Sweden

In Sweden most blue-collar workers are covered by defined contribution schemes, the charge in the Income Statement being EUR 69.9 (EUR 54.9) million, with defined benefit schemes covering mainly white-collar staff. However, contributions paid during the year amounted to EUR 16.5 (EUR 16.0) million.

Total defined benefit obligations amounted to EUR 410.2 (EUR 298.1) million and assets to EUR 318.8 (EUR 281.6) million, leaving a net liability of EUR 91.4 million at the year end, compared with a net liability of EUR 16.5 million the year before. This increase in net liability arose from decrease in discount rate, implementation of new mortality table and from change in other assumptions and experiences. As in Finland, the greater part of Swedish pension provision comes from state pensions, especially for those with defined contribution schemes. Stora Enso has undertaken to pay over all local legal pension liabilities for the main ITP scheme to the foundation, thus the remaining liability relates to other small schemes.

The long-term investment return target for the foundation is a 3% real return after tax, with investment policy defining long-term strategic allocation targets as property up to 10%, equity up to 30%, alternative investments up to 10% and the balance in debt.

## Other Countries

Total defined benefit obligations in the remaining countries amounted to EUR 176.4 (EUR 156.9) million, the assets to EUR 133.3 (EUR 126.7) million, so the net liability came to EUR 43.1 (EUR 32.1) million.

Obligations were material only in the United Kingdom, at EUR 121.5 (EUR 107.5) million and assets at EUR 114.0 (EUR 107.5) million, leaving a net liability of EUR 7.5 (EUR -) million.

### Pension and Post-Employment Benefit Provisions

| | As at 31 December | |
|---|---|---|
| **EUR million** | **2012** | **2011** |
| Defined benefit pension plan liabilities | 439.9 | 312.8 |
| Other post-employment benefit liabilities | 21.7 | 20.3 |
| **Total Balance Sheet Liabilities** | **461.6** | **333.1** |
| Defined benefit plan assets (Note 16) | - | 2.4 |
| **Net Defined Benefit Liability** | **461.6** | **330.7** |

### Statement of Financial Position Receivables and Payables

As at 31 December

| | Net Defined Benefit Plan Liability | | | | |
|---|---|---|---|---|---|
| **EUR million** | **2012** | **2011** | **2010** | **2009** | **2008** |
| Present value of funded obligations | 963.4 | 807.0 | 760.3 | 686.9 | 645.0 |
| Present value of unfunded obligations | 326.2 | 296.0 | 287.4 | 267.8 | 242.7 |
| Defined Benefit Obligations (DBO) | 1 289.6 | 1 103.0 | 1 047.7 | 954.7 | 887.7 |
| Fair value of plan assets | 827.4 | 773.5 | 743.1 | 668.2 | 591.7 |
| Effect of asset ceiling | - | 1.9 | - | - | - |
| **Net Funding in Defined Benefit Plans** | **462.2** | **331.4** | **304.6** | **286.5** | **296.0** |
| Unrecognised prior service costs | -0.6 | -0.7 | -1.0 | - | - |
| **(Asset)/Liability** | **461.6** | **330.7** | **303.6** | **286.5** | **296.0** |

| | Defined Benefit Plan Assets | | | | |
|---|---|---|---|---|---|
| **EUR million** | **2012** | **2011** | **2010** | **2009** | **2008** |
| Present value of funded obligations | 0.5 | 280.2 | 258.5 | 207.7 | 178.1 |
| Present value of unfunded obligations | - | - | - | - | - |
| Defined Benefit Obligations (DBO) | 0.5 | 280.2 | 258.5 | 207.7 | 178.1 |
| Fair value of plan assets | 0.5 | 282.6 | 275.3 | 226.2 | 181.1 |
| Effect of asset ceiling | - | - | - | - | - |
| **Net Funding in Defined Benefit Plans** | **-** | **-2.4** | **-16.8** | **-18.5** | **-3.0** |
| Unrecognised prior service costs | - | - | - | - | - |
| **(Asset)/Liability** | **-** | **-2.4** | **-16.8** | **-18.5** | **-3.0** |

| | Defined Benefit Plan Liabilities | | | | |
|---|---|---|---|---|---|
| **EUR million** | **2012** | **2011** | **2010** | **2009** | **2008** |
| Present value of funded obligations | 962.9 | 526.8 | 501.8 | 479.2 | 466.9 |
| Present value of unfunded obligations | 326.2 | 296.0 | 287.4 | 267.8 | 242.7 |
| Defined Benefit Obligations (DBO) | 1 289.1 | 822.8 | 789.2 | 747.0 | 709.6 |
| Fair value of plan assets | 826.9 | 490.9 | 467.8 | 442.0 | 410.6 |
| Effect of asset ceiling | - | 1.9 | - | - | - |
| **Net Funding in Defined Benefit Plans** | **462.2** | **333.8** | **321.4** | **305.0** | **299.0** |
| Unrecognised prior service costs | -0.6 | -0.7 | -1.0 | - | - |
| **(Asset)/Liability** | **461.6** | **333.1** | **320.5** | **305.0** | **299.0** |

### Amounts Recognised on the Statement of Financial Position – Defined Benefit Plans

As at 31 December

| | Total Defined Benefit Plans | | Defined Benefit Pension Plans | | Other Post-Employment Benefits | |
|---|---|---|---|---|---|---|
| **EUR million** | **2012** | **2011** | **2012** | **2011** | **2012** | **2011** |
| Present value of funded obligations | 963.4 | 807.0 | 963.4 | 807.0 | - | - |
| Present value of unfunded obligations | 326.2 | 296.0 | 303.9 | 275.0 | 22.3 | 21.0 |
| Defined Benefit Obligations (DBO) | 1 289.6 | 1 103.0 | 1 267.3 | 1 082.0 | 22.3 | 21.0 |
| Fair value of plan assets | 827.4 | 773.5 | 827.4 | 773.5 | - | - |
| Effect of asset ceiling | - | 1.9 | - | 1.9 | - | - |
| **Net Liability in Defined Benefit Plans** | **462.2** | **331.4** | **439.9** | **310.4** | **22.3** | **21.0** |
| Unrecognised prior service costs | -0.6 | -0.7 | - | - | -0.6 | -0.7 |
| **Net Liability** | **461.6** | **330.7** | **439.9** | **310.4** | **21.7** | **20.3** |

## Amounts Recognised in the Income Statement

| | Year Ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | Total Defined Benefit Plans | | Defined Benefit Pension Plans | | Other Post-Employment Benefits | |
| **EUR million** | **2012** | **2011** | **2012** | **2011** | **2012** | **2011** |
| Current service cost | 10.2 | 9.7 | 9.3 | 8.6 | 0.9 | 1.1 |
| Interest cost | 43.9 | 45.8 | 43.1 | 45.0 | 0.8 | 0.8 |
| Expected return on plan assets | -34.9 | -37.9 | -34.9 | -37.9 | - | - |
| Past service cost recognised in the year | 0.2 | 0.4 | - | 0.2 | 0.2 | 0.2 |
| Other | -1.7 | - | - | - | -1.7 | - |
| **Total Included in Personnel Expenses** | **17.7** | **18.0** | **17.5** | **15.9** | **0.2** | **2.1** |

## Defined Benefit Plan Asset Reconciliation

| | Total Defined Benefit Plan Asset | |
|---|---|---|
| **EUR million** | **2012** | **2011** |
| Benefit plan asset at 1 January | 2.4 | 16.8 |
| Translation difference | 0.1 | 0.3 |
| Net expense in Income Statement | - | 2.7 |
| Actuarial gain (losses) | -0.1 | -31.4 |
| Contributions paid | - | 14.0 |
| Reclassification | -2.4 | - |
| **Benefit Plan Asset of Financial Position** | **-** | **2.4** |

## Defined Benefit Plan Reconciliation

| | As at 31 December | | | | | |
|---|---|---|---|---|---|---|
| | Total Defined Benefit Plans | | Defined Benefit Pension Plans | | Other Post-Employment Benefits | |
| **EUR million** | **2012** | **2011** | **2012** | **2011** | **2012** | **2011** |
| Net liability at 1 January | 330.7 | 303.6 | 310.4 | 285.7 | 20.3 | 17.9 |
| Translation difference | 0.4 | -0.3 | 0.4 | -0.3 | - | - |
| Net expense in Income Statement | 17.7 | 18.0 | 17.5 | 15.9 | 0.2 | 2.1 |
| Actuarial losses recognised in equity | 167.3 | 55.8 | 164.9 | 53.9 | 2.4 | 1.9 |
| Contributions paid | -54.5 | -46.4 | -53.3 | -44.8 | -1.2 | -1.6 |
| **Net Liability of Financial Position** | **461.6** | **330.7** | **439.9** | **310.4** | **21.7** | **20.3** |

### Statement of Financial Position Actuarial Losses Recognised in Equity

| | As at 31 December | |
|---|---|---|
| **EUR million** | **2012** | **2011** |
| Actuarial losses in equity at 1 January | -202.7 | -145.9 |
| Actuarial losses recognised in equity | -171.6 | -53.9 |
| Loss due to change in asset ceiling | 4.3 | -1.9 |
| Translation difference | -2.2 | -1.0 |
| **Cumulative Actuarial Losses Recognised in Equity** | **-372.2** | **-202.7** |

### Statement of Actuarial Gains and Losses

| | Year Ended 31 December | | | | |
|---|---|---|---|---|---|
| **EUR million** | **2012** | **2011** | **2010** | **2009** | **2008** |
| Gain / loss on pension scheme assets | | | | | |
| Amount | 16.4 | 9.9 | 40.5 | 45.8 | -78.1 |
| Percentage of scheme assets | 2.0% | 1.3% | 5.5% | 6.9% | -13.2% |
| Loss / gain arising on pension scheme liabilities | | | | | |
| Amount | -188.0 | -63.8 | -73.0 | -66.2 | 65.4 |
| Percentage of liabilities | 14.6% | 5.8% | 7.0% | 6.9% | -7.4% |
| Gain / loss due to change in asset ceiling | 4.3 | -1.9 | - | - | - |
| **Total Losses** | **-167.3** | **-55.8** | **-32.5** | **-20.4** | **-12.7** |

### Defined Benefit Plans: Country Assumptions Used in Calculating Benefit Obligations

| | Year Ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | **Finland** | | **Germany** | | **Sweden** | |
| | **2012** | **2011** | **2012** | **2011** | **2012** | **2011** |
| Discount rate % | 3.25 | 4.25 | 3.25 | 4.25 | 3.0 | 3.50 |
| Expected return on plan assets % | 3.25 | 4.25 | 4.50 | 4.50 | 5.00 | 5.00 |
| Future salary increase % | 3.5 | 3.5 | 2.5 | 2.5 | 3.0 | 3.0 |
| Future pension increase % | 2.1 | 2.1 | 2.0 | 2.0 | 2.0 | 2.0 |
| Average current retirement age | 63.8 | 63.8 | 63.0 | 65.0 | 65.0 | 64.9 |
| Weighted average life expectancy | 88.60 | 88.00 | 85.00 | 85.00 | 88.70 | 87.00 |

### Return on Plan Assets by Country

| | Year Ended 31 December 2012 | | | | |
|---|---|---|---|---|---|
| **EUR million** | **Finland** | **Germany** | **Sweden** | **Other** | **Total** |
| Actual return on plan assets | 28.3 | 0.2 | 19.5 | 3.3 | 51.3 |
| Estimated return used in actuarial calculations | 14.7 | 0.3 | 14.8 | 5.1 | 34.9 |
| **Actuarial Gain / Loss for the Year Recognised in Equity** | **13.6** | **-0.1** | **4.7** | **-1.8** | **16.4** |

| | Year Ended 31 December 2011 | | | | |
|---|---|---|---|---|---|
| **EUR million** | **Finland** | **Germany** | **Sweden** | **Other** | **Total** |
| Actual return on plan assets | 33.5 | 0.1 | 5.7 | 8.5 | 47.8 |
| Estimated return used in actuarial calculations | 15.5 | 0.2 | 16.3 | 5.9 | 37.9 |
| **Actuarial Gain / Loss for the Year Recognised in Equity** | **18.0** | **-0.1** | **-10.6** | **2.6** | **9.9** |

### Defined Benefit Plan Summary by Country as at 31 December 2012

| | As at 31 December 2012 | | | | |
|---|---|---|---|---|---|
| **EUR million** | **Finland** | **Germany** | **Sweden** | **Other** | **Total** |
| Present value of funded obligations | 414.0 | 14.6 | 388.4 | 146.4 | 963.4 |
| Present value of unfunded obligations | - | 274.4 | 21.8 | 30.0 | 326.2 |
| Defined Benefit Obligations (DBO) | 414.0 | 289.0 | 410.2 | 176.4 | 1 289.6 |
| Fair value of plan assets | 369.0 | 6.3 | 318.8 | 133.3 | 827.4 |
| Effect of asset ceiling | - | - | - | - | - |
| Net liability in the Defined benefit plans | 45.0 | 282.7 | 91.4 | 43.1 | 462.2 |
| Unrecognised prior service costs | - | - | - | -0.6 | -0.6 |
| **Net Liability in the Balance Sheet** | **45.0** | **282.7** | **91.4** | **42.5** | **461.6** |
| | | | | | |
| **Represented by** | | | | | |
| Defined benefit pension plans | 45.0 | 282.7 | 91.4 | 20.8 | 439.9 |
| Other post-employment benefits | - | - | - | 21.7 | 21.7 |
| **Net Liability in the Balance Sheet** | **45.0** | **282.7** | **91.4** | **42.5** | **461.6** |

### Defined Benefit Plan Summary by Country as at 31 December 2011

| | As at 31 December 2011 | | | | |
|---|---|---|---|---|---|
| **EUR million** | **Finland** | **Germany** | **Sweden** | **Other** | **Total** |
| Present value of funded obligations | 387.0 | 12.0 | 279.4 | 128.6 | 807.0 |
| Present value of unfunded obligations | - | 249.0 | 18.7 | 28.3 | 296.0 |
| Defined Benefit Obligations (DBO) | 387.0 | 261.0 | 298.1 | 156.9 | 1 103.0 |
| Fair value of plan assets | 359.4 | 5.8 | 281.6 | 126.7 | 773.5 |
| Effect of asset ceiling | - | - | - | 1.9 | 1.9 |
| Net liability in the Defined benefit plans | 27.6 | 255.2 | 16.5 | 32.1 | 331.4 |
| Unrecognised prior service costs | - | - | - | -0.7 | -0.7 |
| **Net Liability in the Balance Sheet** | **27.6** | **255.2** | **16.5** | **31.4** | **330.7** |
| | | | | | |
| **Represented by** | | | | | |
| Defined benefit pension plans | 27.6 | 255.2 | 16.5 | 11.1 | 310.4 |
| Other post-employment benefits | - | - | - | 20.3 | 20.3 |
| **Net Liability in the Balance Sheet** | **27.6** | **255.2** | **16.5** | **31.4** | **330.7** |

The two main financial factors affecting Group pension liabilities are changes in interest rates and inflation expectations, so the aim of asset investment allocations is to neutralise these effects and maximise returns. The expected return on plan assets was determined by considering the long-term expected returns available on the assets underlying current investment policies in Group pension foundations and trusts. The assumptions reflect a combination of historical performance analysis and the forward-looking views of financial markets as revealed through the yield on long-term bonds and price-earnings ratios of the major stock indices.

## Plan Assets

| | As at 31 December | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| **EUR million** | **Value** | **%** | **Value** | **%** |
| Equity | 243.3 | 29.4 | 209.6 | 27.1 |
| Debt | 389.7 | 47.1 | 402.2 | 52.0 |
| Property | 67.0 | 8.1 | 70.4 | 9.1 |
| Cash | 38.1 | 4.6 | 19.3 | 2.5 |
| Others | 89.3 | 10.8 | 72.0 | 9.3 |
| **Total Pension Fund Assets** | **827.4** | **100.0** | **773.5** | **100.0** |

Plan assets do not include any real estate or other assets occupied by the Group or the Company's own financial instruments. The breakdown of Finnish pension assets EUR 369.0 (359.4) million is not disclosed separately as actual asset allocations can only be estimated based on known target values published by the insurance companies concerned.

In 2013 contributions of EUR 50.0 million are expected to be paid.
In 2012 contributions of EUR 54.5 (EUR 46.5) million were paid.

# Note 22 Employee Variable Compensation and Equity Incentive Schemes

The majority of production employees are members of labour unions with which either the Group or the forest industry customarily negotiate collective bargaining agreements in Europe. Salaries for senior management are negotiated individually. Stora Enso has incentive plans that take into account the performance, development and results of both business units and individual employees. This performance-based variable compensation system is based on profitability as well as on attaining key business targets.

## Short Term Incentive (STI) programmes

Group Executives, Business Area and Business Unit management have STI programmes in which the payment is calculated as a percentage of annual basic salary with a maximum level ranging from 7% to 75%. Non-management employees participate in a STI programme with a maximum incentive level of 7%. All incentives are discretionary. These performance-based programmes cover approximately 95% of employees globally, where allowed by local practice and regulations. For performance year 2012 the annual incentive programmes were based on financial targets and individually set key targets.

## Long Term Incentive (LTI) programmes

Starting in 2004 the Board approved the implementation of two share-based programmes (Restrictive and Performance Share Programmes) to complement and partially replace the existing option programme. From 2005 to 2012 new share-based programmes have been launched each year. Since 2009 new long-term incentive programmes for executives have been mainly performance share programmes. The Performance Share Plans are vesting in portions over a three-year period. The performance target is set annually by the Remuneration Committee. The programmes launched between 2009 and 2011 have a maximum vesting potential of 150% of the number of shares awarded, provided the performance criteria exceed the target. In the Performance Share programme launched in 2012, the absolute maximum vesting level was changed to 100% of the number of shares awarded. In 2010 and 2011 the Board also approved an annual allocation of restricted shares under a separate Young Talent Award programme to a maximum of 100 young talents in the Company.

## Option programmes for management (1999 to 2007)

The Group has an option programme, but the last options granted under this programme were granted in 2007 and there is currently no intention to issue any in the future. The seven-year programmes consist of financially hedged options and synthetic options with strike prices set at levels representing current market prices at issue plus 10% premiums. The synthetic options are hedged by TRS that are settled with cash payments allowing the Company to receive cash compensation to partially offset any change in the share price between the grant and settlement dates. Depending on local circumstances, option holders have the choice of receiving either a payment in cash representing the difference between the strike price and the share price at the time of exercise or an option to purchase existing R shares. If an employee chooses the option to purchase existing R shares, the Company first purchases in the market the relevant number of R shares and then transfers them to the employee, thus avoiding any dilution in the number of shares in issue. Options are not transferable and expire if the employee leaves the Group. During the year no options were exercised as the share price remained below the relevant strike prices; 1 882 750 options from the 2005 scheme lapsed in 2012 and 1 263 500 options from the 2006 scheme lapse on 28 February 2013.

**Option/Synthetic Option Programmes at 31 December 2012**

| Option Programme | Year of Issue | Strike Price Base Period | Strike Price | Number of Staff | Number of Options Issued | Number of Options Cancelled[2] | Number of Options Exercised | Number of Options Outstanding | Exercise Period |
|---|---|---|---|---|---|---|---|---|---|
| 2007 Synthetic | 2007 | 8 Feb 14 Feb | EUR 14.00 | 731 | 1 406 596 | 510 800 | - | 895 796 | 1 Mar 2010 28 Feb 2014 |
| 2006 Synthetic | 2006 | 3 Feb 10 Feb | EUR 12.46/13.32[1] | 744 | 2 161 000 | 897 500 | - | 1 263 500 | 1 Mar 2009 28 Feb 2013 |

[1] Strike price of options granted to new CEO upon his appointment.
[2] Includes options associated with divestment of SENA.

The fair value of employee services received in exchange for cash-settled synthetic options and share awards is recognised at the fair value of the liability incurred and expensed rateably over the vesting period. The synthetic option liability is remeasured at each reporting date to its fair value using estimates of the number of options that are expected to become exercisable and the latest fair valuations using the Black and Scholes model, with all changes recognised in the Income Statement. The liability for share awards is also remeasured at each reporting date to its fair value using estimates of the number of share awards that are expected to be issued and the latest fair valuations by using the Stora Enso R share closing price EUR 5.25 (EUR 4.63) with all changes recognised in the Income Statement.

At the year end, there were 2 159 296 (4 082 421) synthetic options outstanding, of which 2 159 296 (4 082 421) options were exercisable. The strike price for the outstanding options was within the range EUR 12.46 to EUR 14.00, with the weighted average strike price being EUR 13.16 (12.72) and a weighted average remaining contractual right of 0.6 (0.9) years. No options have been granted since 2007.

The fair values of the restricted and performance share awards have been calculated using year end closing prices of Stora Enso R shares. The outstanding restricted and performance share awards are shown below.

### Share Awards at 31 December 2012

| | Projected Delivery of Outstanding Restricted and Performance Share Awards at Year End | | | |
|---|---|---|---|---|
| **Number of shares** | **2013** | **2014** | **2015** | **Total** |
| 2008 programme | 74 000 | - | - | 74 000 |
| 2009 programme | 16 750 | 16 750 | - | 33 500 |
| 2010 programme | 416 851 | - | - | 416 851 |
| 2011 programme | 362 540 | 427 541 | 70 000 | 860 081 |
| 2012 programme | 1 054 003 | 790 503 | 790 503 | 2 635 009 |
| **Total** | **1 924 144** | **1 234 794** | **860 503** | **4 019 441** |

The costs of the Stora Enso Synthetic Option and Share-based Programmes are recognised as costs over the vesting period, being the period between grant and right to exercise or award. The fair valuation and vesting impact of share-based programmes amounted to a gain of EUR 0.9 (EUR 26.6) million. Synthetic options accounted for a gain of EUR 0.1 (EUR 1.3) million and the restricted and performance share awards amounted to a gain of EUR 0.8 (EUR 25.3) million. The year end liability of EUR 3.8 (EUR 4.7) million is shown in Non-current Operative Liabilities of which EUR 0.0 (EUR 0.1) million relates to synthetic options and EUR 3.8 (EUR 4.6) million to the restricted and performance share awards. No options were cashed in 2011 or 2012. The actual cash cost for the restricted and performance share awards totalled EUR 2.9 (EUR 28.4) million.

Stora Enso utilises TRS to partially hedge exposures to changes in the share price of synthetic options granted under the Option Programmes for Management which are settled with cash payments. While these TRS instruments allow the Group to partially stabilise future cash flows related to the settlement of outstanding synthetic options, the Group pays for them as and when exercised and therefore they contain certain market risks such as when the Company's share price is below the option strike price. For this reason the movements on TRS and the option liability do not match on a year-to-year basis, Group TRS instruments do not qualify for hedge accounting and therefore periodic changes to their fair value are recorded in the Income Statement in operative costs alongside the share-based programme costs to which they relate.

At the year end there were TRS instruments outstanding covering 10 960 672 (10 960 672) underlying Stora Enso Oyj R shares recorded at a net fair value asset of EUR 2.6 (liability EUR 22.6) million. The change from a net liability of EUR 22.6 million to a net asset of EUR 2.6 million is due to a cash payment of EUR 16.1 million and a fair value increase of EUR 9.1 million due to the increase in share price from EUR 4.63 at 31 December 2011 to EUR 5.25 at 31 December 2012.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33

# Note 23 Other Provisions

### Other Provisions

| EUR million | Environmental | Restructuring | Other Obligatory | Total Provisions |
|---|---|---|---|---|
| **Carrying Value at 1 January 2012** | **125.9** | **79.7** | **144.0** | **349.6** |
| Translation difference | 3.7 | 1.4 | -1.6 | 3.5 |
| Charge in Income Statement | | | | |
| New provisions | 0.2 | 62.7 | 6.9 | 69.8 |
| Increase in existing provisions | 2.8 | 6.4 | 1.7 | 10.9 |
| Reversal of existing provisions | -9.1 | -9.3 | -30.6 | -49.0 |
| Payments | -9.9 | -45.4 | -116.0 | -171.3 |
| **Carrying Value at 31 December 2012** | **113.6** | **95.5** | **4.4** | **213.5** |
| **Allocation between Current and Non-current Liabilities** | | | | |
| Current liabilities: Payable within 12 months | 6.2 | 64.9 | 0.4 | 71.5 |
| Non-current liabilities: Payable after 12 months | 107.4 | 30.6 | 4.0 | 142.0 |
| **Total at 31 December 2012** | **113.6** | **95.5** | **4.4** | **213.5** |

## Environmental remediation

Provisions for environmental remediation amounted to EUR 113.6 million at 31 December 2012, a decrease of EUR 12.3 million compared with 31 December 2011.

Details of the principal provisions are:

- Following an agreement between Stora Enso and the City of Falun, the Group is obliged to purify runoff from the Kopparberg mine before releasing the water into the environment. The provision at the year end amounted to EUR 47.0 (EUR 45.4) million.
- The site adjacent to Skoghall Mill contains ground pollutants that must be removed. The provision at the year end amounted to EUR 19.6 (EUR 19.2) million.
- The total environmental provision in Finland amounted to EUR 14.6 (EUR 17.6) million. The largest provision relates to the permanent closure of newsprint operations at Varkaus during 2010 and amounted to EUR 9.9 (EUR 10.0) million. Other provisions include EUR 1.2 (EUR 1.0) million related to pollution in the vicinity of Pateniemi Sawmill and two provisions related to the sites of closed mills: EUR 1.6 (EUR 2.3) million related to the former Kemijärvi Pulp Mill and EUR 1.1 (EUR 1.2) million related to the site of the former Summa Mill. Other environmental provisions in Finland amounted to EUR 0.8 million.
- Stora Enso Pulp AB has been removing mercury from the harbour basin at Skutskär for a number of years in co-operation with local authorities. In addition, the Company is obliged to upgrade an old landfill previously used by the mill to comply with revised environmental regulations. At the year end Stora Enso Pulp AB had environmental provisions of EUR 12.7 (EUR 21.6) million.
- EUR 6.5 (EUR 7.5) million of remaining environmental provision relates mainly to landfills that were not disposed of as a part of the disposal of Baienfurt Mill real estate in Germany during 2010.

## Restructuring provisions

The Group has undergone major restructuring in recent years, from divestments to mill closures and administrative cost-saving programmes. New restructuring provisions for the year amounted to EUR 62.7 million, the main item being restructuring provisions related to restructuring measures at Hylte Mill in Sweden amounting to EUR 24.7 million.

In October 2012 Stora Enso announced the permanent shutdown of paper machine (PM) 1 at Hylte Mill in Sweden with annual capacity 180 000 tonnes of newsprint by the end of the fourth quarter of 2012 due to structural weakening of newsprint demand in Europe. The planned closure and other efficiency improvements would affect approximately 140 employees at Hylte Mill. In addition to the permanent shutdown of PM 1, in 2012 Stora Enso announced other restructuring measures at Hylte Mill. The restructuring provisions at the year end amounted to EUR 23.5 million.

In 2012 Stora Enso also announced other restructuring measures in all Business Areas mainly related to restructuring and streamlining operations, and efficiency improvements. New restructuring provisions by Business Areas were: Printing and Reading EUR 36.5 million (including Hylte as detailed above), Renewable Packaging EUR 18.3 million, Biomaterials EUR 5.0 million, Other EUR 1.7 million and Building and Living EUR 1.2 million.

The total cash payments made during the year in respect of established restructuring provisions amounted to EUR 45.4 million.

In 2011 the Group announced restructuring provisions related to restructuring measures in logistics, reorganisation in the Fine Paper Business Area and permanent closure of Kopparfors Sawmill and its pellet mill in Sweden.

The liability at the end of 2012 for restructuring provisions amounted to EUR 95.5 (EUR 79.7) million and covered the costs of closing down operations, demolition, clearance and redundancy costs for reducing staff numbers.

Details of fixed asset impairments relating to restructuring provisions are in Note 11 Depreciation and Fixed Asset Impairment Charges.

## Other obligatory provisions

Other obligatory provisions amounted to EUR 4.4 million at 31 December 2012, a decrease of EUR 139.6 million compared with 31 December 2011. The net change in existing provisions resulted in a reversal of EUR 28.9 million. The main item is the reversal of the existing provision related to NewPage's Stevens Point Mill PM 35 lease guarantee that amounted to EUR 23.1 million provision reversals. The total cash payments made during the year totalled EUR 116.0 million, the main item being the payments related to NewPage's Stevens Point Mill PM 35 lease guarantee. The NewPage provision has been fully settled and the payments during 2012 amounted to EUR 112.7 million. The NewPage provision has been presented as a current interest-bearing liability in the 2011 Statement of Financial Position and full details of the provision are discussed in Note 8 Net Financial Items.

# Note 24 Operative Liabilities

### Non-Current Operative Liabilities

| | As at 31 December | |
|---|---|---|
| **EUR million** | **2012** | **2011** |
| Post-employment benefit provisions (Note 21) | 461.6 | 333.1 |
| Other provisions (Note 23) | 142.0 | 147.7 |
| Accruals | 0.9 | 22.9 |
| Share-based payments (Note 22) | 3.8 | 4.7 |
| Other payables | 7.0 | 4.3 |
| **Total** | **615.3** | **512.7** |

### Current Operative Liabilities

| | As at 31 December | |
|---|---|---|
| **EUR million** | **2012** | **2011** |
| Advances received | 18.2 | 12.3 |
| Trade payables | 1 066.4 | 999.8 |
| Other payables | 95.2 | 129.2 |
| Payroll and staff-related accruals | 225.3 | 214.1 |
| TRS Hedges | - | 22.6 |
| Accrued liabilities and deferred income | 209.0 | 236.4 |
| Current portion of provisions | 71.5 | 64.3 |
| **Total** | **1 685.6** | **1 678.7** |

# Note 25 Financial Risk Management

## Risk management principles and process

Stora Enso is exposed to several financial market risks that the Group is responsible for managing under policies approved by the Board of Directors. The objective is to have cost-effective funding in Group companies and manage financial risks using financial instruments to decrease earnings volatility. The main exposures for the Group are interest rate risk, currency risk, funding risk and commodity price risk, especially for fibre and energy.

The Stora Enso Group Financial Risk Policy governs all financial transactions in Stora Enso. This policy and any future amendments take effect when approved by the Board of Directors. All policies covering the use of financial instruments must comply. Stora Enso Treasury Internal Risk Policy refines the guidance into more detailed instructions. The major financial market risks are detailed below.

## Interest rate risk

Fluctuations in interest rates affect the interest expense of the Group. As a result of the cyclical nature of the economy, the Group has an interest rate risk policy of synchronising interest costs with earnings over the business cycle by swapping long-term fixed interest rates to short-term floating interest rates. The Group's duration benchmark is 12 months, though the Treasury has a deviation mandate of between 3 and 24 months. The duration can be extended to 48 months with approval from the CFO.

As of 31 December 2012, a one percentage point parallel change up or down in interest rates impacts annual net interest expenses by EUR 10 (EUR 11) million, assuming that the duration and the funding structure of the Group stays constant during the year. This simulation calculates the interest effect of a 100 basis point parallel shift in interest rates on all floating rate instruments from their next reset date to the end of the year. In addition, all short-term loans maturing during the year are assumed to be rolled over, thus being artificially prolonged from maturity to year end using the new higher interest rate.

The total Group floating rate net interest-bearing liability position, excluding cash and cash equivalents but including floating legs of interest rate swaps, is some EUR 1.3 (EUR 1.3) billion with an average interest reset period of some 3.2 (1.5) months. The average interest reset period for Group net interest-bearing liabilities, including all interest rate derivatives but excluding cash and cash equivalents, is some 3.7 (3.1) years. A one percentage point parallel change up or down in interest rates would also result in fair valuation gains or losses of some EUR 24.7 (EUR 23.6) million, presented under Other Financial Items, coming mainly from interest rate swaps not qualifying for fair value hedge accounting. Note 28 Derivatives summarises the nominal and fair values of the outstanding interest rate derivative contracts.

## Currency transaction risk

The Group is exposed to currency risk arising from exchange rate fluctuations against its reporting currency euro. Currency transaction risk is the impact of exchange rate fluctuations on the Group Income Statement, which is the effect of currency rates on expected future cash flows. The Group policy to mitigate this is to hedge 50% of the forecast major currency cash flows for 12 months.

The principal foreign exchange transaction exposure comprises both the geographical location of Stora Enso production facilities and the sourcing of raw material and sales outside the euro area, mainly denominated in Swedish krona, US dollars and British pounds sterling. The table below shows the net operating cash flow by currency in 2012, the estimated net cash flow exposure for the next 12 months and the transaction hedges in place as at 31 December 2012.

**Transaction Risk and Hedges in Main Currencies: 2012**

| | As at 31 December | | | | | |
|---|---|---|---|---|---|---|
| **EUR million** | **EUR** | **USD** | **SEK** | **GBP** | **Other** | **Total** |
| Sales during 2012 | 6 250 | 1 540 | 1 240 | 650 | 1 135 | 10 815 |
| Costs during 2012 | -5 490 | -580 | -2 330 | -120 | -1 182 | -9 702 |
| **Net Operating Flow** | **760** | **960** | **-1 090** | **530** | **-47** | **1 113** |
| Estimated annual net operating cash flow exposure | | 1 030 | -930 | 600 | | |
| Transaction hedges as at 31 December 2012 | | -530 | 470 | -270 | | |
| **Hedging Percentage as at 31 December 2012 for the next 12 months** | | **51%** | **51%** | **45%** | | |

Additional GBP hedges for 13–15 months increase the hedging percentages by 3%.

### Transaction Risk and Hedges in Main Currencies: 2011

| | As at 31 December | | | | | |
|---|---|---|---|---|---|---|
| **EUR million** | **EUR** | **USD** | **SEK** | **GBP** | **Other** | **Total** |
| Sales in 2011 | 6 470 | 1 500 | 1 280 | 660 | 1 050 | 10 960 |
| Costs in 2011 | -5 730 | -560 | -2 280 | -90 | -1 090 | -9 750 |
| **Net Operating Flow** | **740** | **940** | **-1 000** | **570** | **-40** | **1 210** |
| Estimated annual net operating cash flow exposure | | 1 200 | -870 | 600 | | |
| Transaction hedges as at 31 December 2011 | | -540 | 380 | -270 | | |
| **Hedging Percentage as at 31 December 2011 for the next 12 months** | | **45%** | **44%** | **45%** | | |

Additional USD and GBP hedges for 13–16 months increase the hedging percentages by 7% and 4% respectively.

The table below shows the estimated effect on annual EBITDA of a 10% change up or down in the euro and Swedish krona value against the US dollar and British pound, measured against year end closing rates. The calculation is made net of currency cash flow hedges and assumes that no changes other than a single currency exchange rate movement have taken place. In addition, as Swedish mills have substantial sales invoiced in euros, the annual impact of a change in SEK/EUR rates has been evaluated as well. Indirect currency effects with an impact on prices and product flows, such as a product becoming cheaper to produce elsewhere, have not been considered in this calculation. The estimated currency effects are based on realised flows from operations in 2011 and 2012, hedging levels at the year end and the assumption that the currency cash flow hedging levels and structures have stayed constant during the year. Hedging instruments include foreign exchange forward contracts and foreign exchange options.

### Annual EBITDA: Estimated Currency Effects

| | As at 31 December 2012 | | | | | | As at 31 December 2011 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Before Hedges** | | **Hedges** | | **Net Impact** | | **Before Hedges** | | **Hedges** | | **Net Impact** | |
| **EUR million** | **10%** | **-10%** | **10%** | **-10%** | **10%** | **-10%** | **10%** | **-10%** | **10%** | **-10%** | **10%** | **-10%** |
| 10% change in the EUR/USD rate | -50 | +60 | +25 | -10 | -25 | +50 | -50 | +60 | - | -35 | -50 | +25 |
| 10% change in the EUR/GBP rate | -35 | +45 | +10 | -15 | -25 | +30 | -40 | +45 | +5 | -20 | -35 | +25 |
| 10% change in the SEK/USD rate | -35 | +45 | +20 | -5 | -15 | +40 | -40 | +45 | +5 | -15 | -35 | +30 |
| 10% change in the SEK/GBP rate | -15 | +15 | +5 | -10 | -10 | +5 | -10 | +15 | +5 | -5 | -5 | +10 |
| 10% change in the SEK/EUR rate | -65 | +80 | +30 | -40 | -35 | +40 | -75 | +90 | +30 | -20 | -45 | +70 |

If the euro and Swedish krona moved up or down by 10% against the US dollar and British pound in reference to trade receivables and payables, with all other variables held constant, EBITDA for the year would change by some EUR 15 (EUR 18) million, mainly as a result of foreign exchange gains and losses on the one-time retranslation of US-dollar-denominated trade receivables. There is a currency breakdown of short-term operative receivables in Note 18 Receivables.

The majority of derivatives that hedge forecasted foreign currency sales and costs qualify for hedge accounting and therefore their fair value changes are presented in Shareholder's Equity under OCI: Hedging Reserve. It is estimated that if the euro and Swedish krona had moved by 10% against the US dollar and British pound, the OCI Hedging Reserve before taxes at the reporting date would have been some EUR 82 (EUR 93) million different as a result of a one-time revaluation of outstanding cash flow hedge accounted currency derivatives with EUR 53 (EUR 63) million coming from US dollar hedges and EUR 29 (EUR 30) million coming from British pound hedges. The estimate assumes all other variables remained constant, such as the time-value of the option hedges and the interest rate component of the forward contracts. The corresponding nominal hedging levels in currencies were USD 694 (USD 809) million and GBP 239 (GBP 249) million.

## Currency translation risk

Translation risk is the danger that fluctuations in exchange rates will affect the value of Stora Enso's net foreign currency denominated assets and liabilities. Translation risk is reduced by funding assets, whenever economically possible, in the same currency as the asset.

The Statements of Financial Position of foreign subsidiaries, equity accounted investments and foreign currency denominated available-for-sale investments are translated into euros using exchange rates prevailing at the reporting date, thus exposing consolidated Group equity to fluctuations in currency rates. The resulting translation differences, along with other movements such as the translation rate difference in the Income Statement, are recorded directly in Shareholders' Equity, though these cumulative differences materialise through the Income Statement on the disposal, in whole or in part, of the foreign entity. The next table shows the translation exposure on equity before and after hedges.

### Translation Risk and Hedges: 2012

| | As at 31 December | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **EUR million** | **Euro area** | **USD area[3]** | **Sweden** | **Czech Republic** | **Poland** | **Brazil** | **Other** | **Total** |
| Capital employed, excluding equity accounted investments | 3 584 | 18 | 1 630 | 129 | 469 | 165 | 674 | 6 669 |
| Equity accounted investments | 189 | 513 | 708 | - | - | 555 | - | 1 965 |
| Net interest-bearing liabilities | -1 010 | -2 | -1 290 | 4 | -162 | 47 | -344 | -2 757 |
| Non-controlling interests | -3 | - | -3 | - | -1 | -26 | -59 | -92 |
| **Translation Exposure on Equity** | **2 760** | **529** | **1 045** | **133** | **306** | **741** | **271** | **5 785** |
| EUR/CZK[1] | 70 | - | - | -70 | - | - | - | - |
| EUR/SEK[2] | 542 | - | -542 | - | - | - | - | - |
| **Translation Exposure after Hedges** | **3 372** | **529** | **503** | **63** | **306** | **741** | **271** | **5 785** |

[1] Foreign exchange forward contracts classified as hedges of investments in foreign assets.
[2] SEK denominated bonds classified as hedges of investments in foreign assets.
[3] Includes the equity accounted investment Montes del Plata in Uruguay, which has USD as its functional currency.

### Translation Risk and Hedges: 2011

| | As at 31 December | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **EUR million** | **Euro area** | **USD area[3]** | **Sweden** | **Czech Republic** | **Poland** | **Brazil** | **Other** | **Total** |
| Capital employed, excluding equity accounted investments | 3 720 | 19 | 1 654 | 123 | 278 | 166 | 833 | 6 793 |
| Equity accounted investments | 207 | 446 | 644 | - | 1 | 615 | - | 1 913 |
| Net interest-bearing liabilities | -1 466 | -11 | -926 | 11 | -13 | 34 | -375 | -2 746 |
| Non-controlling interests | -3 | - | -2 | - | -1 | -22 | -59 | -87 |
| **Translation Exposure on Equity** | **2 458** | **454** | **1 370** | **134** | **265** | **793** | **399** | **5 873** |
| EUR/CZK[1] | 68 | - | - | -68 | - | - | - | - |
| EUR/SEK[2] | 449 | - | -449 | - | - | - | - | - |
| **Translation Exposure after Hedges** | **2 975** | **454** | **921** | **66** | **265** | **793** | **399** | **5 873** |

[1] Foreign exchange forward contracts classified as hedges of investments in foreign assets.
[2] SEK denominated bonds classified as hedges of investments in foreign assets.
[3] Includes the equity accounted investment Montes del Plata in Uruguay, which has USD as its functional currency.

The table below shows the effect on consolidated equity of a +/- 10% change in the value of the euro against the US dollar, Swedish krona and Brazilian real at 31 December. The calculation includes the effects of currency hedges of net investments in foreign entities and assumes that no changes take place other than a single currency exchange rate movement on 31 December each year. The exposures used in the calculations are the foreign currency denominated equity and the hedging levels at 31 December. The hedging instruments are foreign currency forward contracts, currency options and foreign currency denominated borrowings. Full details of actual CTA movements and hedging results are given in Note 29 Cumulative Translation Adjustment and Equity Hedging.

**Consolidated Equity: Currency Effects before Tax of a +/- 10% Movement**

| | As at 31 December 2012 | | | As at 31 December 2011 | | |
|---|---|---|---|---|---|---|
| **EUR million** | **Before Hedges** | **Hedges** | **Net Impact** | **Before Hedges** | **Hedges** | **Net Impact** |
| 10% change in the EUR/SEK rate | 105 | 54 | 51 | 137 | 45 | 92 |
| 10% change in the EUR/USD rate | 53 | - | 53 | 45 | - | 45 |
| 10% change in the EUR/BRL rate | 74 | - | 74 | 79 | - | 79 |
| **Total Effect from Above** | **232** | **54** | **178** | **261** | **45** | **216** |

## Liquidity and refinancing risk

Funding risk arises from the difficulty of obtaining finance for operations at a given point in time. 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 not more than seven years. The policy further states that the Group must have committed credit facilities to cover planned funding needs, the current portion of long-term debt, commercial paper borrowings and other uncommitted short-term loans.

Refinancing risk, or the risk that maturing debt could not be refinanced in the market, is mitigated by Stora Enso's target of maintaining an even maturity profile of outstanding debt. The following table summarises the repayment schedule of long-term debt.

**Repayment Schedule of Non-current Debt: 2012**

| | As at 31 December | | | | | | |
|---|---|---|---|---|---|---|---|
| **EUR million** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018+** | **Total** |
| Bond loans | 50.0 | 375.7 | 511.0 | 795.8 | 314.5 | 1 329.6 | 3 376.6 |
| Loans from credit institutions | 70.8 | 202.4 | 60.1 | 56.9 | 233.8 | 164.0 | 788.0 |
| Financial lease liabilities | 22.3 | 7.9 | 7.8 | 6.8 | 27.4 | 27.2 | 99.4 |
| Other non-current liabilities | 37.9 | 45.5 | 59.7 | 52.5 | 29.0 | 31.6 | 256.2 |
| Fair value of derivatives hedging debt | - | - | 2.1 | - | - | - | 2.1 |
| **Total Non-current Debt** | **181.0** | **631.5** | **640.7** | **912.0** | **604.7** | **1 552.4** | **4 522.3** |
| **Current Liabilities: Repayable within Next 12 Months** | | | | | | | **181.0** |
| **Non-current Liabilities: Repayable after 12 Months** | | | | | | | **4 341.3** |

**Repayment Schedule of Non-current Debt: 2011**

| | As at 31 December | | | | | | |
|---|---|---|---|---|---|---|---|
| **EUR million** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017+** | **Total** |
| Bond loans | 50.0 | - | 727.9 | 492.8 | 808.3 | 341.8 | 2 420.8 |
| Loans from credit institutions | 135.6 | 70.2 | 187.5 | 39.6 | 58.4 | 248.2 | 739.5 |
| Financial lease liabilities | 7.3 | 21.4 | 7.5 | 7.6 | 6.6 | 54.7 | 105.1 |
| Other non-current liabilities | 57.4 | 46.4 | 39.5 | 63.7 | 57.5 | 58.7 | 323.2 |
| Fair value of derivatives hedging debt | -0.3 | - | - | 1.1 | - | - | 0.8 |
| **Total Non-current Debt** | **250.0** | **138.0** | **962.4** | **604.8** | **930.8** | **703.4** | **3 589.4** |
| **Current Liabilities: Repayable within Next 12 Months** | | | | | | | **250.0** |
| **Non-current Liabilities: Repayable after 12 Months** | | | | | | | **3 339.4** |

The table below shows Group contractual undiscounted interest-bearing financial liabilities, to be settled on a net cash basis, classified under principal headings based on the remaining period to contractual maturity at the reporting date. Forward rates were used at point of estimation for contractual finance charges.

**Contractual Maturity Repayments of Interest-bearing Liabilities, Settlement Net: 2012**

| EUR million | 1 Year | 2 Years | 3 Years | 4 Years | 5 Years | 5 Years+ |
|---|---|---|---|---|---|---|
| Non-current debt, carrying amounts | 181.0 | 631.5 | 640.7 | 912.0 | 604.7 | 1 552.4 |
| Less fair value adjustments to carrying amounts | - | -4.3 | -6.5 | -29.4 | 0.7 | 8.5 |
| Estimated contractual finance charges | 222.9 | 217.7 | 171.1 | 134.9 | 94.7 | 421.5 |
| **Contractual Repayments on Non-Current Debt** | **403.9** | **844.9** | **805.3** | **1 017.5** | **700.1** | **1 982.4** |
| Current interest-bearing liabilities, carrying amounts | 331.8 | - | - | - | - | - |
| Contractual finance charges | 1.4 | - | - | - | - | - |
| Bank overdrafts | 4.5 | - | - | - | - | - |
| **Total Contractual Repayments at 31 December 2012** | **741.6** | **844.9** | **805.3** | **1 017.5** | **700.1** | **1 982.4** |

**Contractual Maturity Repayments of Interest-bearing Liabilities, Settlement Net: 2011**

| EUR million | 1 Year | 2 Years | 3 Years | 4 Years | 5 Years | 5 Years+ |
|---|---|---|---|---|---|---|
| Non-current debt, carrying amounts | 250.0 | 138.0 | 962.4 | 604.8 | 930.8 | 703.4 |
| Less fair value adjustments to carrying amounts | 0.1 | - | -25.5 | -7.6 | -35.2 | 7.1 |
| Estimated contractual finance charges | 195.6 | 166.4 | 167.5 | 108.4 | 75.9 | 357.1 |
| **Contractual Repayments on Non-Current Debt** | **445.7** | **304.4** | **1 104.4** | **705.6** | **971.5** | **1 067.6** |
| Current interest-bearing liabilities, carrying amounts | 537.3 | - | - | - | - | - |
| Contractual finance charges | 1.5 | - | - | - | - | - |
| Bank overdrafts | 4.5 | - | - | - | - | - |
| **Total Contractual Repayments at 31 December 2011** | **989.0** | **304.4** | **1 104.4** | **705.6** | **971.5** | **1 067.6** |

## Financial transactions counterparty credit risk

Financial counterparty risk is Stora Enso's exposure on financial contracts arising from a deterioration in counterparties' financial health. This risk is minimised by:

- entering into transactions only with leading financial institutions and with industrial companies that have a high credit rating;
- investing in liquid cash funds only with financially secure institutions or companies;
- requiring parent company guarantees when dealing with any subsidiary of a rated company.

Ratings for external counterparties should be above or equal to A- for banks and BBB for industrial companies dealing in commodities, and ISDA or equivalents are signed with the counterparty. Any other counterparty not meeting the requirements presented above has to be approved by the CEO.

The following table shows the balance of major counterparties at the reporting date using Standard and Poor's credit rating symbols.

**External Counterparty Exposure**

| | | As at 31 December | |
|---|---|---|---|
| EUR million | Rating | 2012 | 2011 |
| Company A | A- | 38.9 | 40.9 |
| Company B | A+ | 35.9 | 20.3 |
| Company C | A- | 29.1 | 50.0 |
| Company D | A+ | 7.0 | - |
| Company E | A | 3.9 | 1.5 |
| Company F | A | 3.6 | 20.8 |

On the divestment of merchant business Papyrus, part of the sales consideration comprised a PIK Note issued by the Altor subsidiary Papyrus Holding AB. The PIK Note was classified as an available-for-sale investment in interest-bearing securities and had at year end a nominal value of EUR 89.5 million and a fair value of EUR 89.6 million. The valuation of this PIK Note requires management judgement, and hence it is subject to uncertainty. The valuation method is described in more detail in Note 15 Available-for-Sale Investments.

## Raw material and energy price risk

Group earnings are exposed to commodity and energy price volatility. Financial energy hedges are part of the total energy price risk management in the Group, whilst commodity risks are measured and hedged if economically possible. A 10% movement in energy and raw material prices would result in a EUR 27.2 (EUR 23.5) million change in the fair value of energy and raw material hedging contracts. The majority of these fair value changes, after taxes, are recorded directly in Equity under Hedging Reserves, until the contracts mature and the result is entered in the Income Statement. These estimates represent only the sensitivity of the financial instruments to market risk and not the Group exposure to raw material and energy price risks as a whole, since the actual purchases are not financial instruments within the scope of the IFRS 7 disclosure requirements. The maturities of the energy and commodity contracts are between one month and four years. In 2011 the maturities ranged from one month to five years.

The greater part of Group energy price risk has been covered by entering into long-term physical fixed price purchase agreements. The Group also has a 14.8% holding, valued at EUR 440.5 (EUR 625.7) million, in PVO, a privately owned group of companies in the energy sector. The value of these shares is dependent on energy prices and discussed in more detail in Note 15 Available-for-Sale Investments.

In addition, in an effort to mitigate the other commodity risk exposures, the Group has major associate and joint venture interests in forest companies in Finland, Sweden, Brazil and Uruguay, thus if prices increase for fibre in these four countries, so do the profits from these Group interests.

## Share price risk

Stora Enso utilises TRS to partially hedge exposures to changes in the share price of synthetic options granted under the Option Programmes for Management (see Notes 6 Staff Costs and 22 Employee Variable Compensation and Equity Incentive Schemes), which are settled with cash payments. While these TRS instruments allow the Group to partially stabilise future cash flows related to the settlement of outstanding synthetic options, they result in certain market risks relating to Group share price developments. Group TRS instruments do not qualify for hedge accounting, and periodic changes to their fair value are recorded in the Income Statement.

As of 31 December 2012 there were TRS instruments outstanding covering 10 960 672 (10 960 672) underlying Stora Enso Oyj R shares recorded at a net fair value asset of EUR 2.6 (net liability EUR 22.6) million, as disclosed in Note 28 Derivatives. A 10% increase in the share price of Ordinary R Shares would result in a gain in the net fair value of the TRS instruments of EUR 5.7 million, based on a closing share price at year end of EUR 5.25 (EUR 4.63) on NASDAQ OMX Helsinki.

The Group has certain investments in publicly traded securities (Note 15 Available-for-Sale Investments). The market value of these equity investments was EUR 6.3 (EUR 3.8) million at the year end. As of 31 December 2012 there were no outstanding financial derivative contracts designated as hedges of investments in publicly traded companies. Market value changes in these investments are recorded, after taxes, directly under Shareholders' Equity in the Available-for-Sale Reserve.

## Customer credit risk

Customer credit risk is Stora Enso's exposure to contracts arising from deterioration in the financial health of customers. Credit insurance has been obtained for customers in the main market areas of Western Europe, Canada and the USA when appropriate. In other market areas, measures to reduce credit risks include letters of credit, prepayments and bank guarantees. The Group has also obtained export guarantees, covering both political and commercial risks, which are used in connection with individual customers outside the OECD area. Management considers that no significant concentration of credit risk with any individual customer, counterparty or geographical region exists for Stora Enso. The Age Analysis of Trade Receivables is given in Note 18 Receivables.

## Capital risk management

Stora Enso's debt structure is focused on capital markets, whereas banks are primarily used to provide back-up facilities. Group objectives when managing capital are to safeguard the ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, as well as to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may, subject to shareholder approval as appropriate, vary the dividend paid to shareholders, buy its own shares in the market, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors its capital on the basis of a target debt-to-equity ratio of 0.80 or less, indicating a strong financial position, and financial flexibility. Debt-to-equity ratios are shown below:

### Capital Structure

| | As at 31 December | |
|---|---|---|
| **EUR million** | **2012** | **2011** |
| Interest-bearing liabilities | 5 133.8 | 4 373.4 |
| Interest-bearing assets | 2 377.0 | 1 627.6 |
| **Interest-bearing Net Debt** | **2 756.8** | **2 745.8** |
| **Equity Attributable to Owners of the Parent** | **5 784.5** | **5 872.7** |
| **Debt / Equity Ratio** | **0.48** | **0.47** |

# Note 26 Fair Values

### Carrying Amounts of Financial Assets and Liabilities by Measurement Category: 2012

| EUR million | Loans and Receivables | Financial Items at Fair Value through Profit and Loss | Hedging Derivatives | Available-for-Sale Financial Assets | Carrying Amounts by Balance Sheet Item | Fair Value | Note |
|---|---|---|---|---|---|---|---|
| **Financial Assets** | | | | | | | |
| Available-for-sale | - | - | - | 546.5 | 546.5 | 546.5 | 15 |
| Non-current loan receivables | 134.2 | - | - | - | 134.2 | 150.7 | 18 |
| Trade and other operative receivables | 1 356.4 | 2.6 | - | - | 1 359.0 | 1 359.0 | 18 |
| Interest-bearing receivables | 114.1 | 138.9 | 44.0 | - | 297.0 | 297.0 | 18 |
| Cash and cash equivalents | 1 849.9 | - | - | - | 1 849.9 | 1 849.9 | |
| **Total** | **3 454.6** | **141.5** | **44.0** | **546.5** | **4 186.6** | **4 203.1** | |

| EUR million | Financial Items at Fair Value through Profit and Loss | Hedging Derivatives | Measured at Amortised Cost | Carrying Amounts by Balance Sheet Item | Fair Value | Note |
|---|---|---|---|---|---|---|
| **Financial Liabilities** | | | | | | |
| Non-current debt | - | 2.1 | 4 339.2 | 4 341.3 | 4 660.8 | 27 |
| Current portion of non-current debt | - | - | 181.0 | 181.0 | 181.0 | 27 |
| Interest-bearing liabilities | 167.1 | 24.0 | 415.9 | 607.0 | 607.0 | 27 |
| Trade and other operative payables | - | - | 1 291.7 | 1 291.7 | 1 291.7 | 24 |
| Bank overdrafts | - | - | 4.5 | 4.5 | 4.5 | |
| **Total** | **167.1** | **26.1** | **6 232.3** | **6 425.5** | **6 745.0** | |

### Carrying Amounts of Financial Assets and Liabilities by Measurement Category: 2011

| EUR million | Loans and Receivables | Financial Items at Fair Value through Profit and Loss | Hedging Derivatives | Available-for-Sale Financial Assets | Carrying Amounts by Balance Sheet Item | Fair Value | Note |
|---|---|---|---|---|---|---|---|
| **Financial Assets** | | | | | | | |
| Available-for-sale | - | - | - | 722.2 | 722.2 | 722.2 | 15 |
| Non-current loan receivables | 125.3 | - | - | - | 125.3 | 140.5 | 18 |
| Trade and other operative receivables | 1 387.1 | - | - | - | 1 387.1 | 1 387.1 | 18 |
| Interest-bearing receivables | 86.5 | 160.2 | 34.8 | - | 281.5 | 281.5 | 18 |
| Cash and cash equivalents | 1 138.8 | - | - | - | 1 138.8 | 1 138.8 | |
| **Total** | **2 737.7** | **160.2** | **34.8** | **722.2** | **3 654.9** | **3 670.1** | |

| EUR million | Financial Items at Fair Value through Profit and Loss | Hedging Derivatives | Measured at Amortised Cost | Carrying Amounts by Balance Sheet Item | Fair Value | Note |
|---|---|---|---|---|---|---|
| **Financial Liabilities** | | | | | | |
| Non-current debt | - | 1.1 | 3 338.3 | 3 339.4 | 3 458.6 | 27 |
| Current portion of non-current debt | - | -0.3 | 250.3 | 250.0 | 250.0 | 27 |
| Interest-bearing liabilities | 106.9 | 56.1 | 616.5 | 779.5 | 779.5 | 27 |
| Trade and other operative payables | 22.6 | - | 1 213.9 | 1 236.5 | 1 236.5 | 24 |
| Bank overdrafts | - | - | 4.5 | 4.5 | 4.5 | |
| **Total** | **129.5** | **56.9** | **5 423.5** | **5 609.9** | **5 729.1** | |

## Fair Value Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3: techniques which use inputs which have a significant effect on the recorded fair values that are not based on observable market data.

See Note 15 Available-for-Sale Investments for more information on Level 3 fair value measurement of available-for-sale financial assets listed in the following table:

### Fair Value Measurements Recognised in the Statement of Financial Position: 2012

| | As at 31 December | | | |
|---|---|---|---|---|
| **EUR million** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Derivative Financial Assets** | | | | |
| Hedging derivatives | - | 44.0 | - | 44.0 |
| Derivatives at fair value through profit and loss | - | 141.5 | - | 141.5 |
| **Available-for-Sale Financial Assets** | | | | |
| Listed securities | 6.3 | - | - | 6.3 |
| Unlisted shares | - | - | 450.6 | 450.6 |
| Unlisted interest-bearing securities | - | - | 89.6 | 89.6 |
| **Total** | **6.3** | **185.5** | **540.2** | **732.0** |
| **Derivative Financial Liabilities** | | | | |
| Hedging derivatives | - | 26.1 | - | 26.1 |
| Derivatives at fair value through profit and loss | - | 167.1 | - | 167.1 |
| **Total** | **-** | **193.2** | **-** | **193.2** |

### Fair Value Measurements Recognised in the Statement of Financial Position: 2011

| | As at 31 December | | | |
|---|---|---|---|---|
| **EUR million** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Derivative Financial Assets** | | | | |
| Hedging derivatives | - | 34.8 | - | 34.8 |
| Derivatives at fair value through profit and loss | - | 160.2 | - | 160.2 |
| **Available-for-Sale Financial Assets** | | | | |
| Listed securities | 3.8 | - | - | 3.8 |
| Unlisted shares | - | - | 640.2 | 640.2 |
| Unlisted interest-bearing securities | - | - | 78.2 | 78.2 |
| **Total** | **3.8** | **195.0** | **718.4** | **917.2** |
| **Derivative Financial Liabilities** | | | | |
| Hedging derivatives | - | 56.9 | - | 56.9 |
| Derivatives at fair value through profit and loss | - | 129.5 | - | 129.5 |
| **Total** | **-** | **186.4** | **-** | **186.4** |

### Reconciliation of Level 3 Fair Value Measurements of Financial Assets: 2012

| EUR million | Unlisted Shares | Unlisted Interest-bearing Securities | Total |
|---|---|---|---|
| Opening balance at 1 January 2012 | 640.2 | 78.2 | 718.4 |
| Writedowns recognised through income statement | -8.0 | - | -8.0 |
| Losses/Gains recognised in other comprehensive income | -181.5 | 1.5 | -180.0 |
| Additions | 0.3 | - | 0.3 |
| Disposals | -0.4 | - | -0.4 |
| Interest capitalised | - | 9.9 | 9.9 |
| **Closing Balance at 31 December 2012** | **450.6** | **89.6** | **540.2** |

### Reconciliation of Level 3 Fair Value Measurements of Financial Assets: 2011

| EUR million | Unlisted Shares | Unlisted Interest-bearing Securities | Total |
|---|---|---|---|
| Opening balance at 1 January 2011 | 879.4 | 72.2 | 951.6 |
| Writedowns recognised through income statement | -3.2 | - | -3.2 |
| Losses recognised in other comprehensive income | -236.5 | -1.4 | -237.9 |
| Additions | 0.6 | - | 0.6 |
| Disposals | -0.1 | -0.1 | -0.2 |
| Interest capitalised | - | 7.5 | 7.5 |
| **Closing Balance at 31 December 2011** | **640.2** | **78.2** | **718.4** |

# Note 27 Debt

Non-current debt at 31 December 2012 amounted to EUR 4 522.3 million, an increase of EUR 932.9 million from the previous year's EUR 3 589.4 million. Redemptions amounted to EUR 508.3 million, the main items being EUR 354.6 million repurchases of Eurobond notes as described below, a EUR 42.0 million repayment on a loan agreement with Nordic Investment Bank (NIB) denominated in euros, EUR 26.8 million in repayment on a loan agreement with European Investment Bank (EIB) denominated in euros and EUR 28.8 million repayments on loans from Finnish pension institutions dominated in euros, with the remaining EUR 56.1 million going mainly to credit institutions. During the year, the Group raised EUR 1 472.3 million of debt, of which EUR 1 311.6 million was raised through the issue of bonds and EUR 160.7 million through other loans primarily from credit institutions as mainly explained below. The remaining net decrease in debt for the year of EUR 31.1 million relates mainly to termination and fair value movements of hedges, foreign exchange and amortisation.

In February 2012 Stora Enso raised a long-term loan of EUR 150 million from EIB to finance the new containerboard machine investment at Ostrołeka Mill in Poland.

In February 2012 the Group also issued a EUR 500 million seven-year bond under the EMTN programme. The bond pays a fixed coupon of 5.5% and has an issue price of 99.824. Stora Enso additionally announced a tender offer for its EUR 750 million Eurobond maturing in 2014. On 9 March 2012 the Group announced that it had successfully repurchased notes with nominal value EUR 336.8 million from the 2014 bond and the transaction was priced at 105.970. In November 2012, the Group repurchased an additional EUR 17.8 million of notes from the 2014 bond.

In June 2012 Stora Enso issued two five-year bonds totalling SEK 1 700 million (EUR 193 million) under its EMTN programme. A SEK 1 350 million bond pays a floating coupon of three months Stibor + 3.90% and has an issue price of 100.000. A SEK 350 million bond pays a fixed coupon of 5.75% and has an issue price of 99.010.

In August 2012 the Group tapped its above-mentioned two five-year bonds with a total of SEK 1 000 million (EUR 119 million) under its EMTN programme. The SEK 1 350 million bond was tapped with SEK 850 million paying a floating coupon of Stibor + 3.90% at a price of 100.866, bringing the total outstanding amount to SEK 2 200 million. The SEK 350 million bond was tapped with SEK 150 million with a fixed coupon of 5.75% at an issue price of 100.719, bringing the total outstanding amount to SEK 500 million.

In September 2012, the Group issued a EUR 500 million 5.5-year bond under its EMTN programme. The bond pays a fixed coupon of 5.00% and has an issue price of 99.580.

There are no financial or change of control covenants in the bond issues detailed above.

Borrowings have various maturities, details of which are set out in Note 25 Financial Risk Management, the longest being in 2036, and have either fixed or floating interest rates ranging from 0.6% (0.5%) to 8.6% (8.6%). The majority of Group loans are denominated in euros, US dollars and Swedish krona. At 31 December 2012 unused committed credit facilities totalled EUR 700 (EUR 700) million, none of which was short term, expiry being in 2015 (2015). Additionally, the Group has access to various other long-term sources of funding up to EUR 600 million mainly from Finnish pension funds.

In 2012 net interest-bearing liabilities increased by EUR 11.0 million to EUR 2 756.8 million. Cash and cash equivalents net of overdrafts increased from EUR 1 134.3 million at 31 December 2011 to EUR 1 845.4 million at 31 December 2012.

The breakdown of net interest-bearing liabilities including internal items and operating capital by principal country/area is detailed below:

**Country/Area Breakdown**

| | As at 31 December | | | |
|---|---|---|---|---|
| | Net Interest-bearing Liabilities | | Operating Capital | |
| **EUR million** | **2012** | **2011** | **2012** | **2011** |
| Euro area | 1 010.3 | 1 465.9 | 3 683.1 | 3 999.2 |
| Sweden | 1 289.5 | 925.9 | 2 609.0 | 2 674.8 |
| Brazil | -46.7 | -33.8 | 716.3 | 776.3 |
| Uruguay | - | - | 494.2 | 404.9 |
| China (including Hong Kong) | 277.0 | 288.5 | 445.4 | 455.2 |
| Poland | 161.7 | 13.0 | 477.9 | 289.7 |
| Russia | 59.8 | 86.4 | 153.9 | 157.2 |
| Czech Republic | -4.2 | -11.4 | 129.5 | 124.4 |
| USA | 1.7 | 11.3 | 37.8 | 63.3 |
| Other | 7.7 | - | 107.0 | 107.0 |
| **Total** | **2 756.8** | **2 745.8** | **8 854.1** | **9 052.0** |

Due to the short-term nature of most current Group financial liabilities their carrying value is considered to approximate their fair value. However, the fair value of non-current debt, exclusive of the current part, is EUR 4 660.8 (EUR 3 458.6) million, against a carrying value of EUR 4 341.3 (EUR 3 339.4) million, the difference being partially offset by the derivatives hedging the debt (see Note 28 Derivatives). The current portion of non-current debt is EUR 181.0 (EUR 250.0) million. A Repayment Schedule of Non-current Debt is presented in Note 25 Financial Risk Management.

### Currency Breakdown of Non-current Debt

| | As at 31 December | |
|---|---|---|
| **EUR million** | **2012** | **2011** |
| EUR | 2 742.4 | 2 097.9 |
| USD | 946.9 | 971.8 |
| SEK | 833.0 | 498.8 |
| Other currencies | - | 20.9 |
| **Total** | **4 522.3** | **3 589.4** |

### Bond Loans in Non-current Debt

| Issue/ Maturity Dates | Description of Bond | Interest Rate % | Currency of Bond | Nominal Value Issued | Outstanding As at 31 December | | Carrying Value As at 31 December | |
|---|---|---|---|---|---|---|---|---|
| | | | | **2012** | **2011** | **2012** | **2011** | **2012** |
| **All Liabilities are Held by the Parent Company** | | | | **Currency million** | | | **EUR million** | |
| **Fixed Rate** | | | | | | | | |
| 1993–2019 | Series C Senior Notes 2019 | 8.600 | USD | 50.0 | 50.0 | 50.0 | 38.6 | 37.9 |
| 2004–2014 | Euro Medium Term Note | 5.125 | EUR | 750.0 | 749.9 | 395.3 | 727.9 | 375.7 |
| 2006–2015 | Swedish Fixed Real Rate | 3.500 | SEK | 500.0 | 500.0 | 500.0 | 65.1 | 67.0 |
| 2006–2016 | Global 6.404% Notes 2016 | 6.404 | USD | 507.9 | 507.9 | 507.9 | 418.3 | 405.8 |
| 2006–2036 | Global 7.250% Notes 2036 | 7.250 | USD | 300.0 | 300.0 | 300.0 | 228.2 | 224.0 |
| 2010–2015 | Euro Medium Term Note | 5.750 | SEK | 2 400.0 | 2 400.0 | 2 400.0 | 269.6 | 280.0 |
| 2012–2017 | Euro Medium Term Note | 5.750 | SEK | 500.0 | - | 500.0 | - | 57.8 |
| 2012–2018 | Euro Medium Term Note | 5.000 | EUR | 500.0 | - | 500.0 | - | 495.8 |
| 2012–2019 | Euro Medium Term Note | 5.500 | EUR | 500.0 | - | 500.0 | - | 497.0 |
| **Total Fixed Rate Bond Loans** | | | | | | | **1 747.7** | **2 441.0** |
| **Floating Rate** | | | | | | | | |
| 2006–2018 | Euro Medium Term Note | Euribor+0.96 | EUR | 25.0 | 25.0 | 25.0 | 25.0 | 25.0 |
| 2006–2018 | Euro Medium Term Note | Euribor+0.72 | EUR | 50.0 | 50.0 | 50.0 | 49.9 | 49.9 |
| 2009–2016 | Euro Medium Term Note | Euribor+4.21 | EUR | 390.0 | 390.0 | 390.0 | 390.0 | 390.0 |
| 2010–2013 | Euro Medium Term Note | Euribor+2.83 | EUR | 25.0 | 25.0 | 25.0 | 25.0 | 25.0 |
| 2010–2013 | Euro Medium Term Note | Euribor+2.60 | EUR | 25.0 | 25.0 | 25.0 | 25.0 | 25.0 |
| 2010–2015 | Euro Medium Term Note | Stibor+3.70 | SEK | 1 400.0 | 1 400.0 | 1 400.0 | 158.2 | 164.0 |
| 2012–2017 | Euro Medium Term Note | Stibor+3.90 | SEK | 2 200.0 | - | 2 200.0 | - | 256.7 |
| **Total Floating Rate Bond Loans** | | | | | | | **673.1** | **935.6** |
| **Total Bond Loans** | | | | | | | **2 420.8** | **3 376.6** |

**Current Interest-bearing Liabilities**

| | As at 31 December | |
|---|---|---|
| **EUR million** | **2012** | **2011** |
| Current loans | 415.9 | 616.5 |
| Derivative financial instruments (see Note 28) | 191.1 | 163.0 |
| **Current Interest-bearing Liabilities** | **607.0** | **779.5** |
| Bank overdrafts | 4.5 | 4.5 |
| **Total Current Interest-bearing Liabilities** | **611.5** | **784.0** |

Current loan payables include accrued interest of EUR 84.1 (EUR 79.2) million. Group short-term loans are denominated in euro 83% (65%), US dollars 5% (29%), Chinese renminbi 10% (6%) and Indian rupee 2% (-), with maturities ranging from payable on demand up to 12 months.

## Finance lease liabilities

At 31 December 2012 Stora Enso had a small number of finance leasing agreements for machinery and equipment for which capital costs of EUR 65.5 (EUR 76.6) million were included in property, plant and equipment; the depreciation and impairment thereon was EUR 12.4 (EUR 13.1) million. The aggregate leasing payments for the year amounted to EUR 10.4 (EUR 17.1) million, the interest element being EUR 3.8 (EUR 4.2) million. In 2012, new finance lease transactions amounted to EUR 1.0 (EUR 3.1) million.

**Finance Lease Liabilities**

| | As at 31 December | |
|---|---|---|
| **EUR million** | **2012** | **2011** |
| **Minimum Lease Payments** | | |
| Less than 1 year | 25.6 | 10.7 |
| 1–2 years | 10.2 | 26.1 |
| 2–3 years | 9.9 | 10.4 |
| 3–4 years | 8.7 | 10.2 |
| 4–5 years | 29.1 | 9.0 |
| Over 5 years | 27.6 | 57.2 |
| | **111.1** | **123.6** |
| Future finance charges | -11.7 | -18.5 |
| **Present Value of Finance Lease Liabilities** | **99.4** | **105.1** |
| **Present Value of Finance Lease Liabilities** | | |
| Less than 1 year | 22.3 | 7.3 |
| 1–2 years | 7.9 | 21.4 |
| 2–3 years | 7.8 | 7.5 |
| 3–4 years | 6.8 | 7.6 |
| 4–5 years | 27.4 | 6.6 |
| Over 5 years | 27.2 | 54.7 |
| | **99.4** | **105.1** |

# Note 28 Derivatives

## Shareholders' equity – other comprehensive income

Certain derivatives are designated as cash flow hedges and measured to fair value with the fair value movements being recorded in the separate equity category of OCI: Hedging Reserve. The other component of OCI is the Available-for-Sale Reserve representing the difference between the reporting date fair value of investments and their initial fair value at acquisition (see Note 15 Available-for-Sale Investments).

Associate companies and joint ventures record amounts directly in equity related to hedges and pensions, and the Group records its share of these amounts also in equity in the "OCI of Equity Accounted Investments" classification. This classification includes a deferred loss of EUR 10.3 (EUR 3.5) million in respect of Stora Enso's associate company Bergvik Skog related to cash flow hedge-accounted interest rate derivatives. In addition, the associate company Tornator has interest rate derivative cash flow hedges showing a deferred loss of EUR 7.8 (EUR 14.0) million, the joint venture Montes del Plata has foreign exchange cash flow hedges showing a deferred loss of EUR 0.7 (EUR 1.3) million, and the US associate Thiele Kaolin has amounts recorded in OCI pertaining mostly to defined benefit pension plans showing a deferred loss of EUR 14.6 (EUR 10.4) million.

The estimated net amount of unrealised cash flow hedge gains net of taxes amounted to EUR 10.7 (EUR loss 17.2) million of which a gain of EUR 19.4 (EUR loss 15.3) million related to currencies and a loss of EUR 8.7 (EUR 1.9) million to commodities. These unrealised gains and losses are expected to be recycled through the Income Statement within one to four years with the longest hedging contract maturing in 2016 (2016), however the majority are expected to mature in 2013. Any hedge ineffectiveness is presented as an adjustment to sales or to materials and services, depending on the underlying exposure, totalling gross losses of EUR 0.3 (gains EUR 2.6) million for commodity contract hedges and nil for currency hedges in both 2012 and 2011. Derivatives used in currency cash flow hedges are forward contracts and options, with swaps mainly used in commodity hedges.

## Fair values of derivatives

Derivative financial instruments are recorded in the Statement of Financial Position at their fair values defined as the amount at which the instrument could be exchanged between willing parties in a current transaction other than in a liquidation or forced sale. The fair values of such financial items have been estimated on the following basis:

- Currency and equity option contract values are calculated using year end market rates together with common option pricing models.
- The carrying amounts of foreign exchange forward contracts are calculated using forward exchange rates at the reporting date.
- The fair values of interest rate swaps are calculated using a discounted cash flow analysis.
- Interest rate option fair values are calculated using year end interest rates together with common option pricing models.
- Commodity contract fair values are computed with reference to quoted market prices on futures exchanges.
- The fair values of commodity options are calculated using year end market rates together with common option pricing models.
- The fair values of Total Return (Equity) Swaps are calculated using year end equity prices as well as year end interest rates.

The Group had no material outstanding embedded derivatives which would have been separated from and accounted differently to the host contract at 31 December 2012 or 2011.

Certain gains and losses on financial instruments are taken directly to equity to offset CTA or deferred under OCI. The remaining fair value movements are taken to the Income Statement as Net Financial Items (Note 8 Net Financial Items).

### Hedge Gains and Losses in Financial Items

| | Year Ended 31 December | |
|---|---|---|
| **EUR million** | **2012** | **2011** |
| Net losses on fair value hedges | -1.3 | -36.9 |
| Fair value changes in hedged items | 0.3 | 35.3 |
| **Net Losses on Fair Value Hedges in Financial Items** | **-1.0** | **-1.6** |
| **Non-qualifying hedges** | | |
| Net losses on interest rate derivatives | -42.6 | -10.2 |
| Net losses/gains on currency derivatives | -71.4 | 0.1 |
| **Net Losses in Financial Items** | **-114.0** | **-10.1** |

Derivatives used in fair value hedges are mainly interest rate swaps.

### Hedge Gains and Losses in Operating Profit

| | Year Ended 31 December | |
|---|---|---|
| **EUR million** | **2012** | **2011** |
| **Cash Flow Hedge Accounted** | | |
| Currency hedges | -8.1 | 108.7 |
| Commodity contract hedges | -2.3 | -8.1 |
| **Total** | **-10.4** | **100.6** |
| As adjustments to Sales | 0.9 | 99.0 |
| As adjustments to Materials and services | -11.3 | 1.6 |
| **Realised from OCI through Income Statement** | **-10.4** | **100.6** |
| Commodity contract hedge ineffectiveness | -0.3 | 2.6 |
| **Net Losses/Gains from Cash Flow Hedges** | **-10.7** | **103.2** |
| **Non-qualifying Hedges** | | |
| Currency hedges | 15.6 | -1.4 |
| Commodity contract hedges | 0.3 | 0.1 |
| **Net Gains/Losses on Non-Qualifying Hedges** | **15.9** | **-1.3** |
| **Net Hedge Gains in Operating Profit** | **5.2** | **101.9** |

### Fair Values of Derivative Instruments

| | As at 31 December | | | |
|---|---|---|---|---|
| | Positive Fair Values | Negative Fair Values | Net Fair Values | Net Fair Values |
| **EUR million** | | **2012** | | **2011** |
| **Fair value hedge accounted** | | | | |
| Interest rate swaps | 7.2 | - | 7.2 | 8.5 |
| **Cash flow hedge accounted** | | | | |
| Currency forward contracts | 1.0 | -0.4 | 0.6 | -4.1 |
| Currency options | 30.0 | -5.6 | 24.4 | -16.1 |
| Commodity contracts | 3.8 | -17.6 | -13.8 | - |
| **Net investment hedge accounted** | | | | |
| Currency forward contracts | - | -0.3 | -0.3 | 1.0 |
| **Non-qualifying hedges** | | | | |
| Interest rate swaps | 117.4 | -72.9 | 44.5 | 87.3 |
| Interest rate options | - | -53.1 | -53.1 | -51.0 |
| Currency forward contracts | 9.3 | -29.4 | -20.1 | 7.9 |
| Currency options | 0.1 | - | 0.1 | - |
| Commodity contracts | 0.3 | -0.1 | 0.2 | -2.1 |
| Equity swaps (TRS) | 2.6 | - | 2.6 | -22.6 |
| **Total** | **171.7** | **-179.4** | **-7.7** | **8.8** |

Positive and negative fair values of financial instruments are shown under Interest-bearing Receivables and Liabilities and Non-current Debt with the exception of TRS, which is shown under Operative Receivables and Liabilities.

The presented fair values in the previous table include accrued interest and option premiums. The net premiums received on outstanding derivatives were EUR 0.4 (EUR 0.5) million.

### Nominal Values of Derivative Financial Instruments

| | As at 31 December | |
|---|---|---|
| **EUR million** | **2012** | **2011** |
| **Interest Rate Derivatives** | | |
| Interest rate swaps | | |
| Maturity under 1 year | - | 61.6 |
| Maturity 2–5 years | 2 077.4 | 2 073.3 |
| Maturity 6–10 years | 250.0 | 250.0 |
| | 2 327.4 | 2 384.9 |
| Interest rate options | 516.1 | 522.8 |
| **Total** | **2 843.5** | **2 907.7** |
| | | |
| **Foreign Exchange Derivatives** | | |
| Forward contracts | 1 975.1 | 1 750.2 |
| Currency options | 2 642.2 | 2 669.4 |
| **Total** | **4 617.3** | **4 419.6** |
| | | . |
| **Commodity Derivatives** | | |
| Commodity contracts | 330.7 | 236.7 |
| **Total** | **330.7** | **236.7** |
| | | |
| **Total Return (Equity) Swaps** | | |
| Equity swaps (TRS) | 54.8 | 73.3 |
| **Total** | **54.8** | **73.3** |

The following table analyses the Group's derivative financial instruments to be settled on a gross basis into relevant maturity groupings based on the remaining contract period at the reporting date. For Stora Enso values are mainly for one year only.

Contractual payments for net-settled derivative financial liabilities were in the following maturity groupings: within one year EUR 41.3 (EUR 41.9) million and within two to five years EUR 90.2 (EUR 93.1) million.

### Contractual Derivatives Maturity Repayments Gross Settlement

| | As at 31 December 2012 | | As at 31 December 2011 | |
|---|---|---|---|---|
| **EUR million** | **2013** | **2014+** | **2012** | **2013+** |
| **Currency Forwards and Options: Cash Flow Hedges** | | | | |
| Outflow | 862.3 | 14.4 | 777.4 | 89.4 |
| Inflow | 880.0 | 14.5 | 769.3 | 89.6 |
| **Currency Forwards and Options: Hedging of Net Investment** | | | | |
| Outflow | 70.1 | - | 68.3 | - |
| Inflow | 69.7 | - | 69.3 | - |
| **Currency Forwards and Options: Fair Value in Income Statement** | | | | |
| Outflow | 1 858.2 | 0.6 | 1 608.5 | - |
| Inflow | 1 836.3 | 0.6 | 1 612.1 | - |

# Note 29 Cumulative Translation Adjustment and Equity Hedging

The Group operates internationally and is thus exposed to currency risk arising from exchange rate fluctuations on the value of its net investment in non-euro area foreign subsidiaries and equity accounted investments. Exchange differences arising from the translation of equity, results and dividends for foreign subsidiary and equity accounted undertakings are aggregated with the financial instruments hedging these investments and the net is recorded directly in shareholders' equity as CTA; this is expensed through the Income Statement on the divestment of a foreign entity.

### Cumulative Translation Adjustment

| | Year Ended 31 December | |
|---|---|---|
| **EUR million** | **2012** | **2011** |
| **At 1 January** | | |
| CTA on net investment in non-euro foreign entities | 9.5 | 85.7 |
| Hedging thereof | 31.4 | 25.4 |
| Net currency gains in equity | 40.9 | 111.1 |
| Tax on hedging | -8.9 | -7.4 |
| | **32.0** | **103.7** |
| **CTA Movement for the Year Reported in OCI** | | |
| Restatement of opening non-euro denominated equity | -9.6 | -82.9 |
| Difference in Income Statement translation | 1.0 | 0.4 |
| Internal equity injections and dividends | -20.6 | 8.3 |
| Other | -0.2 | -2.0 |
| | **-29.4** | **-76.2** |
| **Hedging of Net Investment for the Year Reported in OCI** | | |
| Hedging result | -16.8 | 6.0 |
| Taxes | 4.1 | -1.5 |
| | **-12.7** | **4.5** |
| **At 31 December** | | |
| CTA on net investment in non-euro foreign entities | -19.9 | 9.5 |
| Hedging thereof (see below) | 14.6 | 31.4 |
| Cumulative net currency losses/gains in equity | -5.3 | 40.9 |
| Tax on hedging | -4.8 | -8.9 |
| **Net CTA in Equity** | **-10.1** | **32.0** |
| **Hedging of Net Investment in Foreign Entities** | | |
| Hedging | 14.6 | 31.4 |
| Tax on hedging | -4.8 | -8.9 |
| **Net Hedging Result in Equity** | **9.8** | **22.5** |
| Realised gains | 20.4 | 20.9 |
| Unrealised losses/gains | -10.6 | 1.6 |
| **Total Gains** | **9.8** | **22.5** |

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33

The Group is currently hedging only its equity exposure to the Czech koruna and Swedish krona. The main movements in CTA in 2012 were a gain of EUR 25.4 (loss of EUR 31.8) million related to the Polish zloty, a gain of EUR 37.9 (EUR 10.6) million related to the Swedish krona and a loss of EUR 86.9 (EUR 71.1) million related to the Brazilian real. The most significant accumulated CTA balances are in Sweden, amounting to a loss of EUR 69.8 (EUR 107.7) million, and in Czech Republic, amounting to a gain of EUR 35.1 (EUR 31.8) million.

There were no material releases of CTA through the Income Statement in 2012 or 2011.

### Amounts Recognised in the Statement of Financial Position – CTA and Equity Hedging

| | As at 31 December | | | | | |
|---|---|---|---|---|---|---|
| | Cumulative Translation Adjustments (CTA) | | Equity Hedges | | Net CTA in the Statement of Financial Position | |
| **EUR million** | **2012** | **2011** | **2012** | **2011** | **2012** | **2011** |
| Brazil | 8.1 | 95.0 | - | - | 8.1 | 95.0 |
| China | 3.4 | 3.5 | - | - | 3.4 | 3.5 |
| Czech Republic | 35.1 | 31.8 | -14.1 | -12.4 | 21.0 | 19.4 |
| Poland | -12.1 | -37.5 | 16.9 | 16.9 | 4.8 | -20.6 |
| Russia | -10.7 | -13.0 | - | - | -10.7 | -13.0 |
| Sweden | -69.8 | -107.7 | 11.8 | 26.9 | -58.0 | -80.8 |
| Uruguay | 25.3 | 36.6 | - | - | 25.3 | 36.6 |
| USA | 4.9 | 6.5 | - | - | 4.9 | 6.5 |
| Others | -4.1 | -5.7 | - | - | -4.1 | -5.7 |
| **CTA before Tax** | **-19.9** | **9.5** | **14.6** | **31.4** | **-5.3** | **40.9** |
| Taxes | - | - | -4.8 | -8.9 | -4.8 | -8.9 |
| **Net CTA in Equity** | **-19.9** | **9.5** | **9.8** | **22.5** | **-10.1** | **32.0** |

### Amounts Recognised in the Statement of Other Comprehensive Income – CTA and Equity Hedging

| | As at 31 December | | | | | |
|---|---|---|---|---|---|---|
| | Cumulative Translation Adjustments (CTA) | | Equity Hedges | | Net CTA in OCI | |
| **EUR million** | **2012** | **2011** | **2012** | **2011** | **2012** | **2011** |
| Brazil | -86.9 | -71.1 | - | - | -86.9 | -71.1 |
| China | -0.1 | 5.1 | - | - | -0.1 | 5.1 |
| Czech Republic | 3.3 | -3.8 | -1.7 | 1.9 | 1.6 | -1.9 |
| Poland | 25.4 | -31.8 | - | -0.1 | 25.4 | -31.9 |
| Russia | 2.3 | -1.6 | - | - | 2.3 | -1.6 |
| Sweden | 37.9 | 10.6 | -15.1 | 4.2 | 22.8 | 14.8 |
| Uruguay | -11.3 | 16.6 | - | - | -11.3 | 16.6 |
| USA | -1.6 | 1.2 | - | - | -1.6 | 1.2 |
| Others | 1.6 | -1.4 | - | - | 1.6 | -1.4 |
| **CTA before Tax** | **-29.4** | **-76.2** | **-16.8** | **6.0** | **-46.2** | **-70.2** |
| Taxes | - | - | 4.1 | -1.5 | 4.1 | -1.5 |
| **Net CTA in Equity** | **-29.4** | **-76.2** | **-12.7** | **4.5** | **-42.1** | **-71.7** |

## Hedging of net investment in foreign entities

Group policy for translation risk exposure is to minimise this by funding assets whenever possible and economically viable in the same currency, but if matching of the assets and liabilities in the same currency is not possible hedging of the remaining translation risk may take place. The gains and losses net of tax on all financial liabilities and instruments used for hedging purposes are offset in CTA against the respective currency movements arising from the restatement of the net investments at current exchange rates on the reporting date; the net amount of losses included in CTA during the period as shown in the previous table came to EUR 12.7 (gains EUR 4.5) million.

### Hedging Instruments and Unrealised Hedge Losses/Gains

| | As at 31 December | | | | | |
|---|---|---|---|---|---|---|
| | Nominal amount (Currency) | | Nominal amount (EUR) | | Unrealised Loss/Gain (EUR) | |
| **EUR million** | **2012** | **2011** | **2012** | **2011** | **2012** | **2011** |
| **Forward exchange contracts** | | | | | | |
| Czech Republic | 1 762.5 | 1 762.5 | 70.1 | 68.4 | -0.2 | 0.7 |
| **Borrowings** | | | | | | |
| Sweden | 4 650.0 | 4 000.0 | 541.8 | 448.8 | -10.4 | 0.9 |
| **Total Hedging** | | | **611.9** | **517.2** | **-10.6** | **1.6** |

# Note 30 Commitments and Contingencies

## Commitments

| | As at 31 December | |
|---|---|---|
| **EUR million** | **2012** | **2011** |
| **On Own Behalf** | | |
| Pledges given | 0.7 | 1.3 |
| Mortgages | 6.0 | 9.7 |
| **On Behalf of Equity Accounted Investments** | | |
| Guarantees | 652.7 | 418.4 |
| **On Behalf of Others** | | |
| Guarantees | 4.9 | 5.0 |
| Other commitments | 0.1 | - |
| **Other Commitments Own** | | |
| Operating leases in next 12 months | 62.9 | 66.1 |
| Operating leases after next 12 months | 496.9 | 525.8 |
| Pension liabilities | 0.4 | 0.4 |
| Other commitments | 5.2 | 5.1 |
| **Total** | **1 229.8** | **1 031.8** |
| Pledges given | 0.7 | 1.3 |
| Mortgages | 6.0 | 9.7 |
| Guarantees | 657.6 | 423.4 |
| Operating leases | 559.8 | 591.9 |
| Pension liabilities | 0.4 | 0.4 |
| Other commitments | 5.3 | 5.1 |
| **Total** | **1 229.8** | **1 031.8** |

Guarantees are made in the ordinary course of business on behalf of equity accounted investments and occasionally others; the guarantees entered into with financial institutions and other credit guarantors generally oblige the Group to make payment in the event of default by the borrower. The guarantees have off-Balance-Sheet credit risk representing the accounting loss that would be recognised at the reporting date if counterparties failed to perform completely as contracted. The credit risk amounts are equal to the contract sums assuming the amounts are not paid in full and are irrecoverable from other parties.

In 2012 the Group's commitments amounted to EUR 1 229.8 (EUR 1 031.8) million. In addition, parent company Stora Enso Oyj has guaranteed the liabilities of many of its subsidiaries up to a maximum of EUR 788.6 (EUR 821.2) million as of 31 December 2012.

Stora Enso Oyj has also guaranteed the indebtedness of its Brazilian joint venture, Veracel, to various local and international banks, the amount outstanding at the year end being EUR 22.3 (EUR 70.1) million.

Stora Enso and Arauco have the Montes del Plata joint venture pulp mill project ongoing in Uruguay. In September 2011 Stora Enso announced that the external financing for the project had been finalised. Montes del Plata has signed the loan agreements and as part of the financing arrangements, Stora Enso has signed an agreement to guarantee 50% of USD 1 354 million of loans raised by Montes del Plata. Stora Enso's 50% share of the total guarantee will be a maximum of USD 677 million (EUR 513.1 million) of which Stora Enso's guarantee outstanding as of 31 December 2012 amounted to EUR 421.4 (EUR 128.1) million.

The Group's share of total capital commitments in Montes del Plata amounted to EUR 212.8 (EUR 435.7) million of which Stora Enso Oyj has guaranteed machinery supplier contracts to Andritz, one of the suppliers of production technologies and equipment for the new pulp mill, to the maximum exposure of EUR 189.0 million. The amount outstanding as of 31 December 2012 was EUR 189.0 (EUR 189.0) million.

Stora Enso Logistics AB has a time charter party with Wagenborg Scheepvaart B.V. of the Netherlands (WSBV) concerning three vessels; WSBV has in turn chartered the three vessels from owners in Denmark. At the expiry of the three time charter parties in 2015, Stora Enso Oyj has guaranteed to pay the owners an amount equal to the difference between the stipulated loss value and the net sale price obtained by the owners; however, always limited to 6/21 of the original facility amount. The maximum Group exposure under this guarantee amounted to EUR 22.4 (EUR 22.4) million at the year end.

The Group leases office and warehouse space, cars, machinery and equipment under various non-cancellable operating leases, some of which contain renewal options. For certain leases deemed onerous, a provision has been made that amounts to EUR 7.3 (EUR 9.3) million at the end of 2012. The future cost for contracts exceeding one year and for non-cancellable operating leasing contracts are:

**Repayment Schedule of Operating Lease Commitments**

| | As at 31 December | |
|---|---|---|
| **EUR million** | **2012** | **2011** |
| Less than 1 year | 62.9 | 66.1 |
| 1–2 years | 54.6 | 57.2 |
| 2–3 years | 48.8 | 49.5 |
| 3–4 years | 40.0 | 43.6 |
| 4–5 years | 32.0 | 33.7 |
| Over 5 years | 321.5 | 341.8 |
| **Total** | **559.8** | **591.9** |

Stora Enso has material commitments in China, where the Group has rental commitments for up to 50 years on some 90 000 hectares of land contracted to date, as well as being obliged to pay for the standing trees on land it has contracted to rent. Future land rental payments reported under operating leases are estimated at EUR 261.9 (EUR 279.4) million for the plantations, and the capital commitments on existing trees amounted to EUR 9.3 (EUR 8.3) million at the end of 2012.

Stora Enso Oyj has also signed a 15-year take-or-pay contract with Rederi AB Trans-Atlantic for the operation of ships between Finland and Sweden. The Group's commitment amounted to EUR 123.9 (EUR 147.8) million for the remaining nine years at the end of 2012.

Capital expenditure commitments at the balance sheet date but not recognised in the financial statements amounted to EUR 71.8 (EUR 213.9) million. Commitments in relation to capital expenditure mainly relate to ongoing project at Ostrołeka Mill in Poland.

Stora Enso's share of outstanding capital expenditure commitments in joint ventures amounted to EUR 212.8 (EUR 435.7) million at the end of 2012. They relate to the ongoing Montes del Plata mill project described earlier.

## Contingent liabilities

Stora Enso has undertaken significant restructuring actions in recent years which have included the divestment of companies, sale of assets and mill closures. These transactions include a risk of possible environmental or other obligations the existence of which would be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Stora Enso is party to legal proceedings that arise in the ordinary course of business and which primarily involve claims arising out of commercial law. The management do not consider that liabilities related to such proceedings before insurance recoveries, if any, are likely to be material to the Group financial condition or results of operations.

- **Class action lawsuits in USA**
  In the context of magazine paper sales in the USA in 2002 and 2003, Stora Enso Oyj (SEO) and Stora Enso North America (SENA) were sued in a number of class action (and other civil) lawsuits filed in the USA by various magazine paper purchasers that claimed damages for alleged antitrust violations. On 14 December 2010 a US federal district court granted a motion for summary judgment that Stora Enso had filed on behalf of both SEO and SENA seeking dismissal of the direct purchaser class action claims. Following appeal, a federal court of appeals on 6 August 2012 upheld the district court's ruling as to SEO, which means that the direct purchaser class action claims against SEO have been found to be without legal foundation, but reversed the district court's ruling as to SENA and referred that part of the case back to the district court for a jury trial to determine whether SENA's conduct did violate the federal antitrust laws. The appeal court's decision is procedural and does not constitute a legal finding that SENA has violated antitrust laws. A motion by SENA requesting the US Supreme Court to review and reverse the federal court of appeals decision vacating the district court's ruling as to SENA has been dismissed by the Supreme Court and the case against SENA will now proceed to a trial in the district court. Furthermore, most of the indirect purchaser actions have been dismissed by a consent judgment, subject, however, to being reinstated if the plaintiffs in the direct cases are ultimately successful in obtaining a final judgment that SENA violated antitrust laws. Since Stora Enso disposed of SENA in 2007, Stora Enso's liability, if any, will be determined by the provisions in the SENA Sales and Purchasing Agreement. No provisions have been made in Stora Enso's accounts for these lawsuits.

- **Legal Action in Brazil against Veracel**
  On 11 July 2008 Stora Enso announced that a federal judge in Brazil had issued a decision claiming that the permits issued by the State of Bahia for the operations of Stora Enso's equity accounted investment Veracel were not valid. The judge also ordered Veracel to take certain actions, including reforestation with native trees on

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33

part of Veracel's plantations and a possible BRL 20 million (EUR 9 million) fine. Veracel disputes the decision and has filed an appeal against it. Veracel operates in full compliance with all Brazilian laws and has obtained all the necessary environmental and operating licences for its industrial and forestry activities from the competent authorities. In November 2008 a Federal Court suspended the effects of the decision. Veracel has not recorded any provision for the reforestation or the possible fine. On 30 September 2009 a judge in the State of Bahia issued an interim decision ordering the State Government of Bahia not to grant Veracel further plantation licences in the municipality of Eunápolis in response to claims by a state prosecutor that Veracel's plantations exceeded the legal limits, which Veracel disputes. Veracel's position is supported by documentation issued by the State environmental authority.

- **Legal Proceeding in Finland**
  On 3 December 2009 the Finnish Market Court fined Stora Enso for competition law infringements in the market for roundwood in Finland from 1997 to 2004. Stora Enso did not appeal against the ruling. On 31 March 2011 Metsähallitus of Finland initiated legal proceedings against Stora Enso, UPM and Metsäliitto claiming compensation for damages allegedly suffered due to the competition law infringements. The total claim against all the defendants amounts to approximately EUR 160 million and the secondary claim against Stora Enso to approximately EUR 85 million. In addition, some Finnish municipalities and private forest owners initiated similar legal proceedings. The total amount claimed by all these defendants amounts to approximately EUR 70 million and the secondary claims solely against Stora Enso to approximately EUR 25 million. Stora Enso denies that Metsähallitus, and other plaintiffs, suffered any damages whatsoever and will forcefully defend itself. No provisions have been made in Stora Enso's accounts for these lawsuits.

- **Kemijärvi Pulp Mill environmental case**
  Kemijärvi Pulp Mill in Finland was permanently closed down in 2008. In December 2011 Vaasa Court of Appeal gave decision concerning the environmental permit for the closure of the mill. The judgement included an obligation to remove the majority of the sludge from the bottom of the water treatment lagoon. Stora Enso disagrees with the decision and has in January 2012 filed an appeal to Supreme Administrative Court.

- **Norrsundet Pulp Mill environmental case**
  The production of pulp at Norrsundet Mill in Sweden was permanently closed in December 2008. Provisions for refuse handling contamination on site and sea sediment have been recognized. In 2011 some chemical substances were found in the sea sediment outside the mill area. Discussions with the county administrative board about responsibility and possible actions are ongoing and no decisions had been taken by the balance sheet date.

- **Veracel's potential tax exposure arising from PIS/COFINS tax credits**
  In December 2011 Veracel Celulose S/A (Veracel) received a tax audit report, where the tax authority claimed that part of PIS (The Social Integration Program) and COFINS (The Contribution for the Financing of Social Security) paid by Veracel on purchase of raw material and services, would not be eligible for tax credit. Stora Enso and Veracel consider the claim as unjustifiable and no provisions have been made in Stora Enso's or Veracel's accounts for this matter. The dispute is still pending.

# Note 31 Principal Subsidiaries in 2012

The following is a list of the Company's fifty principal operating subsidiary undertakings ranked by external sales; these companies along with the parent account for 97% (98%) of Group external sales. The principal country in which each subsidiary operates is the country of incorporation. The Group's effective interest in the undertakings is 100% except where indicated and is held in each case by a subsidiary undertaking except for those companies marked with "+" which are held directly by the Parent Company. The countries operating outside the euro area are indicated by "◊".

The subsidiaries Corenso-Elfes GmbH & Co. KG and Corenso United (Deutschland) GmbH & Co. KG have made use of the exemption provisions under Sec. 264 b German Commercial Code (HGB).

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33

## Subsidiary Companies (Ranked by External Sales)

| | | Country | Sales % | Printing and Reading | Biomaterials | Building and Living | Renewable Packaging | Other |
|---|---|---|---|---|---|---|---|---|
| **Stora Enso Oyj** | | **Finland** | **25.49** | • | • | | • | • |
| Stora Enso Skoghall AB | ◊ | Sweden | 6.05 | | | | • | |
| Stora Enso Kvarnsveden AB | ◊ | Sweden | 4.76 | • | | | | |
| Stora Enso Hylte AB | ◊ | Sweden | 3.71 | • | | | | |
| Stora Enso Fors AB | ◊ | Sweden | 3.31 | | | | • | |
| Stora Enso Nymölla AB | ◊ | Sweden | 3.24 | • | | | | |
| Stora Enso Skog AB | ◊ | Sweden | 2.98 | | | | | • |
| Stora Enso Wood Products GmbH | | Austria | 2.90 | | | • | | |
| Stora Enso Kabel GmbH & Co. KG | | Germany | 2.78 | • | | | | • |
| Stora Enso Maxau GmbH | | Germany | 2.57 | • | | | | |
| Stora Enso Langerbrugge NV | + | Belgium | 2.42 | • | | | | |
| Stora Enso Publication Papers Oy Ltd | + | Finland | 2.28 | • | | | | • |
| Enocell Oy | + | Finland | 2.12 | | • | | | |
| Stora Enso Poland S.A. (99.6%) | +/◊ | Poland | 1.98 | | | | • | |
| Stora Enso Pulp AB | ◊ | Sweden | 1.70 | | • | | | • |
| Stora Enso Corbehem SAS | | France | 1.65 | • | | | | |
| Sydved AB (66.7%) | ◊ | Sweden | 1.63 | | | | | • |
| Stora Enso Ingerois Oy | + | Finland | 1.54 | | | | • | |
| Puumerkki Oy | | Finland | 1.48 | | | • | | |
| Stora Enso Uetersen GmbH | | Germany | 1.46 | • | | | | |
| Stora Enso Sachsen GmbH | | Germany | 1.41 | • | | | | • |
| Stora Enso Timber AB | ◊ | Sweden | 1.34 | | | • | | |
| Stora Enso Arapoti Indústria de Papel S.A. (80%) | ◊ | Brazil | 1.28 | • | | | | |
| OOO Stora Enso Packaging BB | ◊ | Russia | 1.24 | | | | • | |
| Stora Enso Suzhou Paper Co Ltd (97.9%) | ◊ | China | 1.24 | • | | | | |
| Stora Enso Barcelona S.A. | | Spain | 1.17 | | | | • | |
| Stora Enso Timber d.o.o. | | Slovenia | 1.15 | | | • | | |
| Stora Enso Wood Products Oy Ltd | + | Finland | 0.99 | | | • | | |
| Stora Enso Eesti AS | + | Estonia | 0.97 | | | • | | • |
| Stora Enso Wood Products Zdirec s.r.o. | ◊ | Czech | 0.94 | | | • | | |
| Stora Enso Packaging AB | ◊ | Sweden | 0.90 | | | | • | |
| Stora Enso Packaging Oy | + | Finland | 0.80 | | | | • | |
| RETS Timber Oy Ltd | | Finland | 0.80 | | | • | | |
| Stora Enso Bioenergi AB | ◊ | Sweden | 0.69 | | | | | • |
| Stora Enso Timber Australia Pty Ltd | ◊ | Australia | 0.66 | | | • | | |
| Stora Enso Huatai Paper Co Ltd (60%) | ◊ | China | 0.64 | • | | | | |
| Stora Enso Inpac Packaging Co. Ltd (51%) | ◊ | China | 0.61 | | | | • | |
| Stora Enso WP Bad St. Leonhard GmbH | | Austria | 0.61 | | | • | | |
| Stora Enso Timber Deutschland GmbH | | Germany | 0.59 | | | • | | |
| Stora Enso Bois SAS | | France | 0.46 | | | • | | |
| Corenso North America Corp. | ◊ | USA | 0.43 | | | | • | |
| Stora Enso Wood Products Planá s.r.o | ◊ | Czech | 0.43 | | | • | | |
| Stora Enso Deutschland GmbH | + | Germany | 0.37 | • | | | • | • |
| Corenso United Oy Ltd | + | Finland | 0.31 | | | | • | |
| Stora Enso Timber UK Ltd | ◊ | UK | 0.24 | | | • | | |
| AS Stora Enso Latvija | ◊ | Latvia | 0.23 | | | • | | • |
| UAB Stora Enso Lietuva | ◊ | Lithuania | 0.21 | | | • | | • |
| Stora Enso Timber DIY Products B.V. | | NL | 0.21 | | | • | | |
| Hangzhou Corenso Hualun Paper Core Co. Ltd (51%) | ◊ | China | 0.18 | | | | • | |
| Stora Enso Packaging Kft | ◊ | Hungary | 0.17 | | | | • | |
| Stora Enso Packaging SIA | ◊ | Latvia | 0.16 | | | | • | |

# Note 32 Related Party Transactions

The key management personnel of the Group are the members of the Group Executive Team and the Board of Directors. The compensation of key management personnel can be found in Note 7 Board and Executive Remuneration.

In the ordinary course of business the Group engages in transactions on commercial terms with equity accounted investments and other related parties with the exception of Veracel and PVO that are no less favourable than would be available to other third parties. Stora Enso intends to continue with transactions on a similar basis with its equity accounted investments further details of which are shown in Note 14 Equity Accounted Investments.

The Group's principal subsidiary companies are listed in Note 31 Principal Subsidiaries in 2012.

## Pulp

Stora Enso and its local partner Fibria (formerly Aracruz Celulose S.A.) have constructed a 1.1 million tonnes per year eucalyptus pulp mill in Brazil for their jointly owned company, Veracel; each company has a 50% stake and is entitled to half of the mill's output. The mill commenced production in May 2005 and shipments of eucalyptus pulp are sent to Stora Enso mills in Europe and China. Sales to Group companies in 2012 totalled 545.5 (537.1) thousand tonnes with an invoice value of EUR 194.5 (EUR 182.0) million. Stora Enso Oyj has also guaranteed the indebtedness of Veracel to various local and international banks the amount outstanding at the year end being EUR 22.3 (EUR 70.1) million.

Stora Enso and Arauco have the Montes del Plata joint venture pulp mill project ongoing in Uruguay. In 2011 Montes del Plata finalised its external financing by signing loan agreements with several counterparties. As part of the financing arrangements, Stora Enso has signed an agreement to guarantee 50% of USD 1 354 million of loans raised by Montes del Plata. Stora Enso's 50% share of the total guarantee will be a maximum of USD 677 million (EUR 513.1 million) of which Stora Enso's guarantee outstanding as of 31 December 2012 was EUR 421.4 (EUR 128.1) million. In addition, the Group's share of total capital commitments in Montes del Plata amounted to EUR 212.8 (EUR 435.7) million of which Stora Enso Oyj has guaranteed EUR 189.0 (EUR 189.0) million.

## Energy

The Group holds a 14.8% interest in Pohjolan Voima Oy (PVO), a privately owned group of companies in the energy sector that produces electricity and heat for its shareholders in Finland. Each subsidiary of the PVO group has its own class of shares that entitle the shareholder to the energy produced in proportion to its ownership of that class of share. Stora Enso is the second-largest shareholder in PVO, being entitled to a capacity share of 438 MW and Juha Vanhainen, as Group representative, has been the Deputy Chairman of the Board of Directors since 2008. Prices paid to PVO for electricity are based on production costs, which are generally lower than market prices and in 2012 amounted to EUR 41.9 (EUR 48.6) million.

In August 2012 Stora Enso and Neste Oil announced that they had decided not to proceed with their plans to build a biodiesel plant, for which the two companies had applied for funding under the European Union NER 300 programme. NSE Biofuels Oy Ltd, a joint venture of Stora Enso and Neste Oil, has been developing biofuel manufacturing technologies and the company carried out several trials at a pilot plant in Varkaus between 2009 and 2011. NSE Biofuels Oy Ltd continues as a joint vehicle of Stora Enso and Neste Oil to develop innovations in the field of gasification and ultra clean gas.

## Financial arrangements

The Group borrows from or has financial arrangements with several financial institutions where certain members of the Stora Enso Board of Directors or Group Executive Team also act as members of the Board of Directors, Supervisory Board or Executive Management Group of one or more of those bodies. These include Skandinaviska Enskilda Banken AB in the case of Marcus Wallenberg. All Group borrowings and financial arrangements have been negotiated on arms-length terms and several have existed for a number of years and prior to the current Board membership.

## Research and development

Stora Enso conducts research and development activities mainly through its three research centres but also increasingly through global networks, including leading partner institutes and universities. Together with the classical Nordic research partner networks, Central European and Latin American universities are becoming increasingly important partners for Stora Enso in the field of research and development. In addition, a 32.24% interest is held in one partner, Oy Keskuslaboratorio – Centrallaboratorium AB (KCL). KCL is the leading pilot plant for pulping, papermaking, coating and printing trials.

## Paper for recycling

The Group owns non-controlling interests in several paper recyclers from which paper for recycling is purchased at market prices.

## Forest assets and wood procurement

The Group has a 41% interest in Tornator with the remaining 59% being held by Finnish institutional investors. Stora Enso has long-term purchase contracts with the Tornator Group for approximately 1.8 million cubic metres of wood annually at market prices, and in 2012 purchases of 2.0 (2.0) million cubic metres came to EUR 60.0 (EUR 56.9) million.

The Group has a 43.26% interest in Bergvik Skog with the remaining 56.74% held mainly by institutional investors. The Group has long-term supply contracts with Bergvik Skog under which Bergvik Skog sells some 5.0 million cubic metres of wood annually to Stora Enso at market prices. In 2012 these purchases of 4.9 (5.2) million cubic metres amounted to EUR 123.7 (EUR 156.5) million and Group sales, mainly forest management services, to Bergvik Skog amounted to EUR 42.0 (EUR 37.3) million.

The Group also has loan receivables from Bergvik Skog amounting to EUR 91.5 (EUR 88.1) million and from Tornator amounting to EUR 26.4 (EUR 26.3) million.

## Stevedoring

The Group currently owns 34.39% of the shares of Steveco Oy, a Finnish company engaged in loading and unloading vessels. The other shareholders in Steveco are UPM-Kymmene, Finnlines and Ahlström Capital. Stevedoring services are provided by Steveco at market prices and in 2012 amounted to EUR 3.5 (EUR 4.9) million.

## Maintenance

Stora Enso and ABB signed an agreement in September 2008 to establish a joint-venture company to provide maintenance services to Group mills starting on 1 January 2009. As a result, ABB has 49% of the shares in Efora Oy but as the shareholders' agreement provides that ABB has 51% of the votes, ABB has operative control. Total services acquired from Efora Oy in 2012 amounted to EUR 197.8 (EUR 199.7) million.

# Note 33 Earnings per Share and Equity per Share

## Earnings per Share

| | Year Ended 31 December | |
|---|---|---|
| | **2012** | **2011** |
| Net profit for the period attributable to the owners of the parent, EUR million | 480.5 | 339.7 |
| Total comprehensive income attributable to the owners of the parent, EUR million | 148.4 | -133.8 |
| Weighted average number of A and R shares | 788 619 987 | 788 619 987 |
| Diluted number of shares | 788 619 987 | 788 619 987 |
| **Basic Earnings per Share, EUR** | **0.61** | **0.43** |
| **Total Recognised Income and Expense per Share, EUR** | **0.19** | **-0.17** |

## Equity per Share

| | As at 31 December | |
|---|---|---|
| | **2012** | **2011** |
| Shareholders' equity, EUR million | 5 784.5 | 5 872.7 |
| Market value, EUR million | 4 221.7 | 3 726.4 |
| Number of A and R shares | 788 619 987 | 788 619 987 |
| **Basic Shareholders' Equity per Share, EUR** | **7.33** | **7.45** |
| **Dividend per Share Paid/Declared, EUR** | **0.30** | **0.30** |
| **Market Value per Share, EUR** | | |
| A shares | 5.70 | 5.03 |
| R shares | 5.25 | 4.63 |

# Extract from the Parent Company Financial Statements

## Accounting principles

The Parent Company Financial Statements are prepared according to Generally Accepted Accounting Principles in Finland (Finnish GAAP); see Group Consolidated Financial Statements Note 1, Accounting Principles. The main differences between the accounting policies of the Group and the Parent Company are:

- Accounting of amortisation of capitalised goodwill
- The valuation of financial assets, financial liabilities, financial instruments and securities
- Accounting of post-employment Defined Benefit Plans
- The presentation and accounting of deferred tax
- Accounting of equity incentive schemes
- Accounting of financial leases.

### Parent Company Income Statement

| | Year Ended 31 December | |
|---|---|---|
| **EUR million** | **2012** | **2011** |
| **Sales** | **3 293.9** | **3 397.7** |
| Changes in inventories of finished goods and work in progress | 19.6 | -15.2 |
| Production for own use | - | 0.1 |
| Other operating income | 151.7 | 171.7 |
| Materials and services | -2 318.0 | -2 335.5 |
| Personnel expenses | -309.0 | -312.1 |
| Depreciation and value adjustments | -42.8 | -127.9 |
| Other operating expenses | -654.4 | -665.7 |
| **Operating Profit** | **141.0** | **113.1** |
| Net financial items | 583.2 | -324.9 |
| **Profit/Loss before Extraordinary Items** | **724.2** | **-211.8** |
| Extraordinary income | 13.8 | 52.7 |
| **Profit/Loss before Appropriations and Taxes** | **738.0** | **-159.1** |
| Appropriations | -69.5 | 7.5 |
| Income tax expense | -4.5 | -0.6 |
| **Net Profit/Loss for the Period** | **664.0** | **-152.2** |

### Parent Company Balance Sheet

#### Assets

| | As at 31 December | |
|---|---|---|
| **EUR million** | **2012** | **2011** |
| **Fixed Assets and Non-current Investments** | | |
| Intangible assets | 32.9 | 38.8 |
| Tangible assets | 992.0 | 954.1 |
| Shares in Group companies | 7 036.4 | 8 911.2 |
| Other investments | 2 686.6 | 482.9 |
| | **10 747.9** | **10 387.0** |
| **Current Assets** | | |
| Inventories | 480.7 | 486.1 |
| Short-term receivables | 625.4 | 919.4 |
| Cash and cash equivalents | 3 008.4 | 1 227.6 |
| | **4 114.5** | **2 633.1** |
| **Total Assets** | **14 862.4** | **13 020.1** |

#### Equity and Liabilities

| | As at 31 December | |
|---|---|---|
| **EUR million** | **2012** | **2011** |
| Share capital | 1 342.2 | 1 342.2 |
| Share premium | 3 638.8 | 3 638.8 |
| Invested non-restricted equity fund | 633.1 | 633.1 |
| Retained earnings | 231.4 | 620.2 |
| Net profit/loss for the period | 664.0 | -152.2 |
| | **6 509.5** | **6 082.1** |
| **Appropriations** | **449.1** | **379.5** |
| **Provisions** | **55.6** | **207.2** |
| **Non-current Liabilities** | **3 963.2** | **2 876.9** |
| **Current Liabilities** | **3 885.0** | **3 474.4** |
| **Total Equity and Liabilities** | **14 862.4** | **13 020.1** |

## Parent Company Cash Flow Statement

| EUR million | Year Ended 31 December 2012 | 2011 |
|---|---|---|
| **Cash Provided by Operating Activities** | | |
| Net profit/loss for the period | 664.0 | -152.2 |
| Taxes | 4.5 | 0.6 |
| Appropriations | 69.5 | -7.5 |
| Extraordinary items | -13.8 | -52.7 |
| Depreciation and value adjustments | 42.7 | 127.9 |
| Unrealised foreign exchange wins and losses | 17.4 | -2.7 |
| Other no-cash items | -43.4 | -11.2 |
| Financial income and expenses | -583.3 | 324.9 |
| Interest received | 16.3 | 25.5 |
| Interest paid net of amounts capitalised | -224.2 | -166.5 |
| Dividends received | 808.1 | 22.4 |
| Other financial items paid net | -52.4 | 63.2 |
| Income taxes paid | -4.7 | -0.7 |
| Change in net working capital | 45.3 | -82.9 |
| **Net Cash Provided by Operating Activities** | **746.2** | **88.0** |
| **Cash Flow from Investing Activities** | | |
| Capital expenditure | -94.3 | -121.5 |
| Proceeds from sale of fixed assets | 1.3 | 6.3 |
| Investment in subsidiary shares | -3.4 | -0.5 |
| Proceeds from disposal of subsidiary shares | 1 878.0 | 2.0 |
| Proceeds from disposal of shares in equity accounted investments | 2.2 | 0.0 |
| Proceeds from disposal of shares in other companies | 0.4 | 0.3 |
| Proceeds from (payment of) long-term receivables net | -2 005.9 | -90.5 |
| **Net Cash Used in Investing Activities** | **-221.7** | **-203.9** |
| **Cash Flow from Financing Activities** | | |
| Proceeds from (payment of) long-term liabilities net | 1 078.9 | 13.5 |
| Proceeds from (payment of) short-term borrowings net | 362.8 | 321.2 |
| Dividends paid | -236.6 | -197.2 |
| Group contributions paid and received | 51.9 | 2.2 |
| **Net Cash Used in Financing Activities** | **1 257.0** | **139.7** |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | **1 781.4** | **23.8** |
| Translation adjustment | -1.0 | 1.1 |
| Cash and cash equivalents at start of year | 1 227.0 | 1 202.1 |
| **Cash and Cash Equivalents at Year End** | **3 007.4** | **1 227.0** |

# The Board of Directors' Proposal for the Distribution of Dividend

The Parent Company distributable shareholders' equity on 31 December 2012 amounted to EUR 1 528 495 979.09, including the profit for the period of EUR 664 011 113.01. The Board of Directors proposes to the Annual General Meeting of the Company that the distributable funds be used as follows:

| | |
|---|---|
| Dividend of EUR 0.30 per share from the distributable shareholders' equity to be distributed on 789 538 499 shares, not to exceed | EUR 236 861 549.70 |
| Remaining in distributable shareholders' equity | EUR 1 291 634 429.39 |
| Distributable shareholders' equity on 31 December 2012, total | EUR 1 528 495 979.09 |

There have been no material changes in the Parent Company's financial position since 31 December 2012. The liquidity of the Parent Company remains good and the proposed dividend does not risk the solvency of the Company.

Helsinki, 5 February 2013

**Gunnar Brock**
Chairman

**Juha Rantanen**
Vice Chairman

**Hock Goh**

**Birgitta Kantola**

**Mikael Mäkinen**

**Hans Stråberg**

**Matti Vuoria**

**Marcus Wallenberg**

**Jouko Karvinen**
CEO

# Auditor's Report

## To the Annual General Meeting of Stora Enso Oyj

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Stora Enso Oyj for the year ended 31 December, 2012. The financial statements comprise the consolidated income statement, statement of comprehensive income, statement of financial position, cash flow statement, statement of changes in equity and notes to the consolidated financial statements, as well as the parent company's income statement, balance sheet, cash flow statement and notes to the financial statements.

### Responsibility of the Board of Directors and the Chief Executive Officer

The Board of Directors and the Chief Executive Officer are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Chief Executive Officer shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

### Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company or the Chief Executive Officer are guilty of an act or negligence which may result in liability in damages towards the company or have violated the Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

### Opinion on the company's financial statements and the report of the Board of Directors

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company´s financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

### Other opinions

We support that the financial statements should be adopted. The proposal by the Board of Directors regarding the treatment of distributable funds is in compliance with the Limited Liability Companies Act. We support that the Board of Directors of the parent company and the Chief Executive Officer should be discharged from liability for the financial period audited by us.

Helsinki, 5 February 2013

**Deloitte & Touche Oy**
Authorized Public Audit Firm

**Mikael Paul**
APA

# Capacities by Mill in 2013

## Printing and Reading

| Mill | Location | Grade | Capacity 1 000 t |
|---|---|---|---|
| Anjala | FIN | Impr. news, book | 435 |
| Arapoti | BRA | LWC | 185 |
| Corbehem | FRA | LWC | 330 |
| Dawang | CHN | SC | 170 |
| Hylte[1] | SWE | News | 690 |
| Kabel | DEU | LWC, MWC, HWC | 495 |
| Kvarnsveden[1] | SWE | SC, news, impr. news | 1 020 |
| Langerbrugge | BEL | SC, news, impr. news, dir. | 555 |
| Maxau | DEU | SC | 530 |
| Nymölla | SWE | WFU | 500 |
| Oulu | FIN | WFC | 1 125 |
| Sachsen | DEU | News, directory | 320 |
| Suzhou | CHN | WFC | 245 |
| Uetersen | DEU | WFC | 230 |
| Varkaus | FIN | WFU | 285 |
| Veitsiluoto | FIN | LWC, MWC | 1 020 |
| **Total** | | | **8 135** |

[1] Stora Enso plans to permanently shut down newsprint capacity (205 000 t in Hylte PM2 and 270 000 t in Kvarnsveden MP11).Capacities of PM2 and PM11 are included in the table above.

## Renewable Packaging

| Consumer board | Location | Grade | Capacity 1 000 t |
|---|---|---|---|
| Barcelona | ESP | WLC | 170 |
| Fors | SWE | FBB | 410 |
| Imatra | FIN | SBS, FBB, LPB | 1 095 |
| Ingerois | FIN | FBB | 220 |
| Skoghall | SWE | LPB, FBB, WTL | 800 |
| **Total** | | | **2 695** |

| Plastic coating | | | |
|---|---|---|---|
| Forshaga | SWE | Plastic coating | 115 |
| Imatra | FIN | Plastic coating | 270 |
| **Total** | | | **385** |

| Containerboards | | | |
|---|---|---|---|
| Heinola | FIN | SC fluting | 300 |
| Ostrołęka | POL | Testliner, RCP fluting, sack paper, wrapping paper | 635 |
| **Total** | | | **935** |

| Coreboard | | | |
|---|---|---|---|
| Saint Seurin sur l'Isle | FRA | Coreboard | 95 |
| Pori | FIN | Coreboard | 125 |
| Wisconsin Rapids | USA | Coreboard | 85 |
| **Total** | | | **305** |

| Cores | Location | Grade | Capacity 1 000 t |
|---|---|---|---|
| China (Hangzhou, Foshan) | CHN | Cores | 60 |
| Corenso Edam | NLD | Cores | 8 |
| Corenso Elfes (Krefeld) | DEU | Cores | 30 |
| Corenso Poland (Tychy) | POL | Cores | 6 |
| Corenso Svenska (Bäckefors, Mohed) | SWE | Cores | 28 |
| Corenso Tolosana (Tolosa) | ESP | Cores | 15 |
| Corenso UK (Bolton) | GBR | Cores | 25 |
| Imatra | FIN | Cores | 8 |
| Loviisa | FIN | Cores | 22 |
| Wisconsin Rapids | USA | Cores | 32 |
| **Total** | | | **234** |

| Corrugated packaging | Grade | Capacity million m² |
|---|---|---|
| **Baltic states** | Corrugated packaging | 105 |
| Kaunas | | |
| Riga | | |
| Tallinn | | |
| **Finland** | Corrugated packaging | 200 |
| Heinola | | |
| Lahti | | |
| Ruovesi | | |
| Kristiinankaupunki | | |
| **Hungary** | Corrugated packaging | 25 |
| Komárom | | |
| **Poland** | Corrugated packaging | 315 |
| Łódz | | |
| Mosina | | |
| Ostrołęka | | |
| Tychy | | |
| **Russia** | Corrugated packaging | 345 |
| Arzamas | | |
| Balabanovo | | |
| Balabanovo offset | | |
| Lukhovitsy | | |
| **Sweden** | Corrugated packaging | 280 |
| Jönköping | | |
| Skene | | |
| Vikingstad | | |
| **Total** | | **1 270** |

| Inpac | Location | Grade | Capacity million pcs | Capacity million m² |
|---|---|---|---|---|
| Qian'an, Hebei | CHN | Corrugated and consumer packaging | 400 | 50 |
| Gaobu, Dongguan | CHN | Corrugated and consumer packaging | 175 | 34 |
| Chennai, Tamil Nadu | IND | Corrugated and consumer packaging | 250 | 30 |
| **Total** | | | **825** | **114** |

## Building and Living

| Mill | Location | Capacity 1 000 m³ | Further processing capacity 1 000 m³ | Pellet capacity 1 000 t | CLT capacity 1 000 m³ |
|---|---|---|---|---|---|
| Ala | SWE | 375 | 40 | - | - |
| Alytus | LIT | 180 | 90 | - | - |
| Amsterdam | NLD | - | 110 | - | - |
| Bad St Leonhard | AUT | 390 | 290 | - | 60 |
| Brand | AUT | 470 | 290 | - | - |
| Pälkäne [1)] | FIN | - | - | - | - |
| Gruvön | SWE | 420 | 150 | 100 | - |
| Hartola [1)] | FIN | - | - | - | - |
| Honkalahti | FIN | 310 | 90 | - | - |
| Imavere | EST | 350 | 190 | 100 | - |
| Impilahti | RUS | 120 | - | 25 | - |
| Kitee | FIN | 260 | 120 | - | - |
| Launkalne | LAT | 200 | - | - | - |
| Murow | POL | 70 | 20 | - | - |
| Nebolchi | RUS | 220 | 30 | 25 | - |
| Näpi | EST | 75 | 130 | 15 | - |
| Pfarrkirchen | DEU | - | 160 | - | - |
| Planá | CZE | 340 | 270 | - | - |
| Sollenau | AUT | 300 | 270 | - | - |
| Uimaharju | FIN | 280 | 35 | - | - |
| Varkaus | FIN | 260 | - | - | - |
| Ybbs | AUT | 590 | 420 | - | 60 |
| Zdírec | CZE | 550 | 270 | - | - |
| **Total** | | **5 760** | **2 975** | **265** | **120** |

[1)] Elementing capacity at Pälkäne (120 000 m²) and module construction capacity at Hartola (1 000 modules) not included in the total figures.

In addition, Veitsiluoto Sawmill in Finland with sawing capacity of 200 000 m³ is reported in the Printing and Reading Business Area.

## Biomaterials

| Mill | Location | Chemical Pulp Grade | Capacity 1 000 t |
|---|---|---|---|
| Enocell | FIN | Short and long-fibre | 450 |
| Skutskär | SWE | Short, long-fibre and fluff pulp | 540 |
| Sunila | FIN | Long-fibre pulp | 370 |
| Montes del Plata (50% share) | URU | Short-fibre pulp | 250 |
| Veracel (50% share) | BRA | Short-fibre pulp | 570 |
| **Total** | | | **2 180** |

### Chemical Pulp

| Mill | Location | Grade | Business Area | Capacity 1 000 t |
|---|---|---|---|---|
| Heinola | FIN | Neutral Sulphite Semi-Chemical Pulp | Renewable Packaging | 265 |
| Kaukopää, Imatra | FIN | Short and long-fibre | Renewable Packaging | 800 |
| Nymölla | SWE | Short and long-fibre | Printing and Reading | 335 |
| Ostrołęka | POL | Long-fibre | Renewable Packaging | 100 |
| Oulu | FIN | Long-fibre | Printing and Reading | 360 |
| Skoghall | SWE | Long-fibre | Renewable Packaging | 350 |
| Tainionkoski, Imatra | FIN | Short and long-fibre | Renewable Packaging | 180 |
| Varkaus | FIN | Short and long-fibre | Printing and Reading | 225 |
| Veitsiluoto | FIN | Short and long-fibre | Printing and Reading | 375 |
| **Chemical Pulp Total (incl. Biomaterials)** | | | | **5 170** |
| of which market pulp [2)] | | | | 1 225 |

[2)] Market pulp defined as dried pulp shipped out from the mill to external customers.

### Deinked Pulp (DIP)

| Mill | Location | Grade | Business Area | Capacity 1 000 t |
|---|---|---|---|---|
| Hylte | SWE | DIP | Printing and Reading | 450 |
| Langerbrugge | BEL | DIP | Printing and Reading | 680 |
| Maxau | DEU | DIP | Printing and Reading | 295 |
| Sachsen | DEU | DIP | Printing and Reading | 430 |
| **Total** | | | | **1 855** |

### CTMP

| Mill | Location | Grade | Business Area | Capacity 1 000 t |
|---|---|---|---|---|
| Fors | SWE | CTMP | Renewable Packaging | 185 |
| Kaukopaa | FIN | CTMP | Renewable Packaging | 220 |
| Skoghall | SWE | CTMP | Renewable Packaging | 270 |
| **Total** | | | | **675** |

See next page for the Abbreviations used in the tables.

**Abbreviations used in the tables:**

| | |
|---|---|
| LWC | light-weight coated paper |
| SC | super-calendered paper |
| MWC | medium-weight coated paper |
| HWC | heavy-weight coated paper |
| WFU | wood free uncoated |
| WFC | wood free coated |
| FBB | folding boxboard |
| WLC | white lined chipboard |
| SBS | solid bleached sulphate board |
| LPB | liquid packaging board |
| WTL | white top liner |
| RCP | recovered paper |
| DIP | deinked pulp |
| CTMP | chemi-thermo-mechanical pulp |

**The formula:**
(Sum of net saleable production of two best consecutive months / Available time of these two consecutive months) x Available time of the year

# Calculation of Key Figures

| | |
|---|---|
| Operational return on capital employed, Operational ROCE (%) | $100 \times \dfrac{\text{Operational EBIT}}{\text{Capital employed}^{1)\,2)}}$ |
| Operational return on operating capital, Operational ROOC (%) | $100 \times \dfrac{\text{Operational EBIT}}{\text{Operating capital}^{1)\,2)}}$ |
| Return on equity, ROE (%) | $100 \times \dfrac{\text{Profit before tax and non-controlling items – taxes}}{\text{Total equity}^{2)}}$ |
| Equity ratio (%) | $100 \times \dfrac{\text{Total equity}}{\text{Total assets}}$ |
| Interest-bearing net liabilities | Interest-bearing liabilities – interest-bearing assets |
| Debt/equity ratio | $\dfrac{\text{Interest-bearing net liabilities}}{\text{Equity}^{3)}}$ |
| CEPS | $\dfrac{\text{Net profit/loss for the period}^{3)} \text{ – Fixed asset depreciation and impairment}}{\text{Average number of shares}}$ |
| EPS | $\dfrac{\text{Net profit/loss for the period}^{3)}}{\text{Average number of shares}}$ |
| Payout ratio, excl. NRI, % | $100 \times \dfrac{\text{Dividend distribution / share}}{\text{EPS excl. NRI}}$ |
| Dividend yield, % | $100 \times \dfrac{\text{Dividend distribution / share}}{\text{Closing price of share}}$ |
| Price/earnings ratio (P/E), excl. NRI | $\dfrac{\text{Closing price of share}}{\text{EPS excl. NRI}}$ |
| Operational EBIT | Operating profit/loss excluding NRI and fair valuations of the segments and Stora Enso's share of operating profit/loss excluding NRI and fair valuations of its equity accounted investments (EAI) |
| Operational EBITDA | Operating profit/loss excluding fixed asset depreciation and impairment, share of results of equity accounted investments, NRI and fair valuations |
| Net debt to operational EBITDA | $\dfrac{\text{Interest-bearing net liabilities}}{\text{Operational EBITDA}}$ |
| Last twelve months (LTM) | Twelve months preceding the reporting date |

1) Capital employed = Operating capital – Net tax liabilities
2) Average for the financial period
3) Attributable to owners of the Parent

# Information for Shareholders

## Annual General Meeting (AGM)

Stora Enso Oyj's AGM will be held at 16.00 (Finnish time) on Tuesday 23 April 2013 at the Marina Congress Center, Katajanokanlaituri 6, Helsinki, Finland.

Nominee-registered shareholders wishing to attend and vote at the AGM must be temporarily registered in the Company's register of shareholders on the record date, 11 April 2013. Instructions for submitting notice of attendance will be given in the invitation to the AGM, which can be consulted on the Company's website at www.storaenso.com/agm.

## AGM and dividend in 2013

| | |
|---|---|
| 11 April | Record date for AGM |
| 23 April | Annual General Meeting (AGM) |
| 24 April | Ex-dividend date |
| 26 April | Record date for dividend |
| 15 May | Dividend payment effective |

## Dividend

The Board of Directors proposes to the AGM that a dividend of EUR 0.30 per share be paid to the shareholders for the fiscal year ending 31 December 2012. The dividend payable on shares registered with Euroclear Sweden will be forwarded by Euroclear Sweden AB and paid in Swedish krona. The dividend payable to ADR holders will be forwarded by Deutsche Bank Trust Company Americas (DBTCA) and paid in US dollars.

## Publication dates for 2013

| | |
|---|---|
| 5 February | Financial results for 2012 |
| 18 February | Annual Report 2012 |
| 23 April | Interim Review for January–March |
| 19 July | Interim Review for January–June |
| 22 October | Interim Review for January–September |

## Distribution of financial information

Stora Enso's **Annual Report** is comprised of four separate reports: Rethink Stora Enso 2012, Financial Report 2012, Corporate Governance Report 2012 and Global Responsibility Report 2012.

Rethink Stora Enso 2012 is published in English, Finnish and Swedish, and distributed to shareholders registered with Euroclear Finland and Euroclear Sweden who have requested a copy. Rethink Stora Enso 2012 is downloadable as a PDF file from the Company's website.

Financial Report is published in English and downloadable as a PDF file from the Company's website. The Official Financial Statements (in Finnish), an English translation of the Parent Company Financial Statements and the list of principal subsidiaries can be found on the Company's website.

Corporate Governance Report 2012 is published in English and downloadable as a PDF file from the Company's website. A Finnish translation of the report can be found on the Company's website.

Global Responsibility Report is published in English and downloadable as a PDF file from the Company's website.

Printed **Interim Reviews** (in English, Finnish and Swedish) are distributed to shareholders registered with Euroclear Finland and Euroclear Sweden who have requested a copy. Interim Reviews are published in English, Finnish and Swedish on the Company's website, from where they can be downloaded as PDF files.

## Mailing lists for financial information

- Finnish and Swedish shareholders:
  Changes of address are updated automatically based on the population registers in Finland and Sweden. Please request addition to or removal from mailing lists by e-mail group.communications@storaenso.com, by mail Stora Enso Oyj, Global Communications, P.O. Box 309, FI-00101 Helsinki or by tel. +358 2046 131.
- Registered ADR holders should contact DBTCA. Beneficial owners of Stora Enso ADRs should contact their broker.
- Other stakeholders: see details for Finnish and Swedish shareholders.

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

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

## Contact information for Stora Enso ADR holders

Deutsche Bank Shareholder Services
c/o American Stock Transfer & Trust Company
Peck Slip Station, P.O. Box 2050
New York, NY 10272-2050, USA
Toll-Free number (within the USA only): +1 866 249 2593
DB@amstock.com

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Concept and design: Miltton Oy
Photography: Jenni-Justiina Niemi
Printing: Erweko Oy
Cover stock: Ensocoat 2S 240 g/m$^2$, Stora Enso, Imatra Mills (ISO 14001 certified)
Text stock: LumiSilk 100 g/m$^2$, Stora Enso, Oulu Mill (ISO 14001 certified)



**Stora Enso Rethink 2012**
Stora Enso is transforming itself into a value-driven company focused on growth markets, with its newly defined purpose guiding the journey. Rethink magazine plots this progress, including the company's major investments in China, and provides insight into the people around the globe.

**Stora Enso Global Responsibility Report 2012**
Find out more about Stora Enso's performance on issues related to sustainability in this in-depth report, which follows guidelines defined by the Global Reporting Initiative (GRI).

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