

Read through the following instructions before starting to do the exam!

- You should have three different sections of the examination in front of you:
 1. *Form for answering to the multiple-choice questions*
 2. *Paper with the multiple-choice questions*
 3. *Case material*

- Mark your multiple choice answers only to the form provided and be careful to fill in with a correct manner
 - o **Note that for every right answer you get +1 points, for every blank question you get +0 points and for every incorrect answer you lose -0,5 points!**

- Write your answer to the case onto a separate concept paper. You may answer in Finnish, Swedish or English

- After finishing the exam return ALL papers to the supervisors!

Good luck with the exam!

Väritä ruutu näin / Fill in like this:

Älä tee lomakkeeseen ylimääräisiä merkintöjä, kiitos!
Do not write any extra notes on this sheet, thank you!

Kirjoita NIMI / Write your NAME:

Väritä OPNRO / Fill in your STUD.ID:

	0	1	2	3	4	5	6	7	8	9	<input type="checkbox"/>
1. numero / 1 st number	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. numero / 2 nd number	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. numero / 3 rd number	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. numero / 4 th number	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. numero / 5 th number	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Tarkistuskirjain / Letter:	A	B	C	D	E	F	H	J	K	L	
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	M	N	P	R	S	T	U	V	W		
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

VASTAUSTEN VÄRITYS. Pisteytys: Oikein +1p, Tyhjä 0p, Väärin -0,5p (väritä max 1 vaihtoehto)
FILL IN YOUR ANSWERS. Points: Correct +1p, Empty 0p, Wrong -0,5p (fill in max 1 choice)

	A	B	C	D		A	B	C	D		A	B	C	D
1	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	14	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	27	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	15	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	28	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	16	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	29	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	17	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	30	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	18	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	31	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	19	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	32	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	20	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	33	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	21	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	34	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	22	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	35	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	23	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	36	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	24	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	37	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	25	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	38	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	26	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	39	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
										40	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- 1 The purpose of strategy is to provide:
 - A Direction and scope of an organization over the long-term, which achieves advantage for an organization within a changing environment to meet the needs of markets.
 - B The strategic direction for an organization in the foreseeable future.
 - C A set of standards which all employees in an organization should strive to attain.
 - D Direction and scope of an organization over the long-term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations.
- 2 Which of the following statements is FALSE
 - A The five forces framework can be used to understand the competitive dynamics within the industry
 - B The PESTEL framework can be used to understand the macro-environment
 - C Strategic groups can help to identify the indirect competitors
 - D Market segments are used to identify different competitor firms
- 3 In relation to the PESTEL framework which of the following statements is correct:
 - A It assists in the assessment of organisational strengths and weaknesses
 - B It can be used as a checklist to understand the different environmental influences in the macro environment
 - C It allows a detailed analysis of the structure of an industry
 - D Takes an historical perspective on the environmental factors
- 4 Which of the PESTEL environmental influence category types is generally the most important?
 - A Political
 - B Sociocultural
 - C Technological
 - D None of the above, because the importance depends on the situation
- 5 When the supplier power is likely to be high
 - A Supplier has much better brand than the firm
 - B Switching costs from one supplier to another is high
 - C The firm has passive strategy
 - D The environment is changing
- 6 Generic substitution occurs where products or services compete for disposable income. What is the best analogy example for generic substitutes
 - A Cars vs. potatoes
 - B Potatoes vs. holidays
 - C Video games vs. education
 - D Holidays vs. videos
- 7 Strategic Groups are:
 - A A group of companies competing in the same industry.
 - B A group of Strategic Business Units (SBUs).
 - C Organizations in the same industry with similar characteristics and following similar strategies.
 - D Strategically important product development teams.
- 8 What is the difference between unique resources and core competences?
 - A The first is about the resources of the firm - the other is about the business possibilities of the firm
 - B The first is about the uniqueness of the firm - the other is about the core SBUs of the firm
 - C The first is about the resources of the firm - the other is about the activities of the firm
 - D The first is about the uniqueness of the firm - the other is about the business

- rarerly of the firm
- 9 The value chain attempts to identify those activities which add value primarily to:
- A The senior strategic managers in the organization
 - B The organization's shareholders
 - C The customers or final users
 - D The stakeholders of the target market
- 10 Because the organization has outsourced part of its activities, it is not sufficient to look only at the organization's internal position to define the customers' perceived value. What is the best way to analyze the perceived value in this situation?
- A Analyze the suppliers
 - B Analyze the value network
 - C Analyze the distributors
 - D Analyze the value chain
- 11 What is meant by an activity map?
- A It is used to analyze international supply activities
 - B It is used to analyze strategic capabilities by linking the different activities of an organization
 - C It is used by Google to generate its "find maps" function
 - D It is used to identify competitive advantages by mapping the activities of a company
- 12 Benchmarking is used to analyze organizations relative standing. Which of the following is the LEAST useful benchmarking approach?
- A Comparing organizations' performance against the best performance within the selected topic
 - B A set of industry performance indicators are used to compare organizations within the industry
 - C Organization compares its performance in relation to previous years
 - D An organization compares its performance to its suppliers' performances
- 13 The main purpose of corporate governance is:
- A To maximize shareholder value
 - B To separate ownership and management control of organizations and to make organizations more visibly accountable to stakeholders
 - C To ensure that legislation is complied within the group of stakeholders
 - D To unify ownership and management control of organizations
- 14 Which of the following stakeholder statements is TRUE?
- A Stakeholders are shareholders in key competitors
 - B Stakeholders are organizations closest individuals i.e. family members of the shareholders
 - C Stakeholders depend on the organisation to fulfil their own goals and on whom the organisation depend
 - D Stakeholders dominate the strategy development process in an organization, and their goal is to make the organization succeed in its strategy
- 15 Source of power within an organization is NOT:
- A Hierarchy, e.g. autocratic decision making
 - B Control of strategic resources, e.g. materials, labor, money
 - C Control of human environment, e.g. negotiating skills
 - D Possession of knowledge and skills, e.g. computer specialists

- 16 It is useful to conceive the culture of an organization as consisting four layers. Which of the following statements of culture layers is FALSE?
- A Behaviors are the day-to-day way in which an organization operates. Values may be easy to identify in an organization, and are often written down as statements about the organization's missions, objectives or strategies.
 - B Values are organizations' shibboleths, and thus they are a mix of individual religious beliefs
 - C Beliefs are organizations' shibboleths, and thus they are a mix of individual religious beliefs
 - D Taken-for-granted assumptions are the core of an organization's culture
- 17 Strategies most often develop in organizations through:
- A Formal strategic planning processes
 - B Through a process of learning by doing, often known as "logical incremental"
 - C Through multiple processes which vary according to the type of organization and the context of that organization
 - D As the outcome of cultural and political processes in the organization
- 18 What does the strategy clock framework describe?
- A Ways to enter foreign markets
 - B Competitive strategy options
 - C How to sustain competitive advantage
 - D How to integrate the supply chain
- 19 Which of the following is most true?
- A The long-term strategic planning is advantageous in hypercompetitive conditions
 - B The company's ability to sustain a certain unpredictable appearance in hypercompetitive conditions is essential
 - C The company should monitor its competitors' actions in hypercompetitive markets regardless the cost
 - D The short-term strategic planning should be eliminated
- 20 Global-local dilemma relates to...
- A the extent to which a company should use foreign employees
 - B the extent to which company's products and services may be standardized across national boundaries
 - C the extent to which company's departments should be located outside its home country's borders
 - D the extent to which a company should leverage venture capital from foreign investors
- 21 Corporate parenting is concerned with:
- A The way in which the corporate centre transfers skills or activities between business units, so as to achieve synergies between those business units.
 - B By intervening in business units, so as to restructure them when they are performing badly.
 - C The search for a fit between the skills of the corporate centre of an organization and the strategies of SBUs, so as to add value to those SBUs.
 - D Providing central services in order to reduce the costs required by business units.
- 22 Internal development is where:
- A An organization develops its strategies by building up its own resource base
 - B An organization develops its strategies by building on its own capabilities
 - C An organization develops its strategies by building up its management team
 - D An organization develops its strategies by building up its financial strength

- 23 Acquisitions have some common problems. Which of the following contains the most complete list of these problems:
- A Failure to add value, inability to integrate the new company
 - B Lack of cultural fit, two companies with different core competences, problems with stakeholders
 - C The two companies having different core competences, lack of value adding activities
 - D Failure to add value, inability to integrate the new company, lack of organizational learning
- 24 Networks differ from joint ventures in that networks:
- A Are arrangements whereby two or more organizations work in collaboration without formal relationships, where there is a mutual advantage in doing so
 - B Are arrangements whereby two or more organizations work in collaboration with formal relationships
 - C Are based on personal relationships
 - D Are limited to e-commerce businesses
- 25 The main reason(s) for devolution of decision making is/are.....
- A To increase responsiveness to the changing needs of different customer segments
 - B To place decision making authority close to the action in fast-moving markets rather than force decisions up through slow and remote hierarchies
 - C Where knowledge diffused throughout the organization and top managers are too remote from the sharp-end to understand the company's resources and opportunities
 - D All of these
- 26 'Hard' human resource approaches are concerned with:
- A Issues of performance management
 - B The most difficult issues
 - C Recruitment and training
 - D Peoples' behavior
- 27 Functional structures are based on:
- A The primary activities of an organization such as production, finance and marketing.
 - B Business Units
 - C Geographic divisions
 - D Product divisions
- 28 Assessing the suitability of a strategy concerns:
- A Whether a strategy addresses the circumstances in which an organization is operating
 - B The relationship between the intended strategy and the potential outcome
 - C Whether a strategy meets stakeholder expectations
 - D Key resource issues
- 29 Which of the following does Mintzberg NOT list as one of the 5 P's of strategy?
- A Position
 - B Prescription
 - C Ploy
 - D Pattern

- 30 Which school of strategy is most concerned with seeking a fit between the internal resources and the environment?
- A The Environmental School
 - B The Positioning School
 - C The Design School
 - D The Configurational School
- 31 Which is NOT a premise of the Positioning School?
- A Strategies are generic
 - B Managers plays a major role in the process, analyzing data and officially controlling the choices
 - C Strategies come out of the process full blown and are then articulated and implemented
 - D The marketplace is economic and competitive
- 32 Which of the following does NOT hold true for the Entrepreneurial School of strategy?
- A It is a prescriptive school of strategy
 - B It sees strategy as perspective
 - C Strategy exists in the mind of the leader
 - D The process of strategy formulation is semi-conscious at best
- 33 What is the difference between the wings of the Cognitive School of strategy?
- A One sees cognition as the re-creation of the world and the other sees cognition as creation of the world
 - B One wing tries to understand the mindset of the strategist and the other tries to understand the environment
 - C One sees strategy formulation as a semi-conscious process at best and the other sees strategy as a deliberate
 - D There are no difference
- 34 What does disjointed incrementalism mean?
- A The organization develops through unconnected decisions without a clear ultimate goal or direction
 - B The organization develops through decisions that are directed towards a goal
 - C Decisions are path dependent and although the organization learns the lessons depend on previous experience
 - D Changes come from cumulative interaction of routines
- 35 Which of the following is NOT a premise of the Learning School?
- A It is the collective system that learns not just the leader
 - B The learning proceeds in an emergent fashion
 - C The role of leadership is one of learning
 - D Strategies appear first as patterns, then as plans and ultimately as perspectives
- 36 Why is organizational politics beneficial?
- A It ensures that the people in important posts are democratically chosen
 - B It ensures that the people in important posts are the strongest
 - C It ensures that the people in important posts have legitimate power
 - D It ensures that the people in important posts share the most common opinions

- 37 According to Barney how can especially culture act as a source of sustained competitive advantage?
- A Through non-substitutability
 - B Through rarity
 - C Through casual ambiguity
 - D Through global convergence of taste
- 38 The population ecology view states that
- A Organizations cannot really change
 - B There is no limit to the number of organizations that can prosper in a given environment
 - C The birth of the organization is when it is at its weakest
 - D The maturity of the organization is when it is at its weakest
- 39 Which of the following does NOT hold true for the Configurational School of strategy?
- A Each school should be used in its own time
 - B The key to strategic management is to sustain stability or adaptable change most of the time
 - C The successive states of configuration and change gives rise to life cycles of organizations
 - D Change is mostly adaptational
- 40 Game theory has become a popular part of the positioning school. Game theory examines the options open to competitors and which of these they are likely to choose. What is a dominant strategy according Game theory regarding firms?
- A A strategy that will lead to a situation preferred by all firms
 - B A strategy that allows one firm to dominate the market
 - C A strategy that provides the firm the best returns in all cases
 - D A strategy that leads to every firm being equally well of



HELSINKI UNIVERSITY OF TECHNOLOGY
DEPARTMENT OF INDUSTRIAL ENGINEERING AND MANAGEMENT
INSTITUTE OF STRATEGY AND INTERNATIONAL BUSINESS



EXAM CASE: Stora Enso in 2009

"We cannot wait for the good times to come back; we ourselves have to make the good times...In the end, the difference between winners and losers in business is often the speed of their actions, more than anything else."

- Jouko Karvinen, Stora Enso's CEO, Stora Enso annual report 2009

The pulp and paper industry has historically been the cornerstone of the Finnish economy, but in recent years the industry has faced difficult times. Many pulp and paper companies worldwide have suffered due to the continuous overcapacity in the industry and changes in global consumption and production. Due to the persistent imbalance of demand and supply in the industry many companies have suffered from weak profitability. Also shifting patterns in demand due to digitalization have changed the outlook for the industry. Without decisive changes and rejuvenation many pulp and paper companies are likely to face serious challenges also in the future.

The European pulp and paper industry has recently been dismantling overcapacity by shutting down unprofitable mills. Stora Enso has closed down mills in Baienfurt, Kemijärvi, Summa, and Imatra as well as a paper machine in Kabel in 2008. The balance of the supply and demand in the industry has improved, although the recent economic crisis has had a further negative effect on this balance.

The market demand is also shifting from Europe and North America to Asia. Today Asia accounts already for 40 % of the total global consumption, while Europe and North America jointly account for one third. The increase of demand in Asia has also given rise to Asian paper and pulp companies that are now beginning to enter the European markets. Asian companies' lower cost base is further deteriorating the industry margins.

Stora Enso is a global paper, packaging, and forest products company that produces newsprint and book paper, magazine paper, fine paper, consumer board, industrial packaging, and wood products. Stora Enso had a very tough year in 2008. After large restructurings in hope of improved margins the company was hit severely by the downturn. Sales decreased as the demand dropped and the operating profit was halved (From 7,3 % to 3,5 %). Stora Enso's cash flow has, however, remained healthy and cash reserves are more than enough to cover short term liabilities.

The near term outlook is continuing weakened demand in the first quarter of 2009. Large drops in demand led to large cuts in Stora Enso's production corresponding to a quarter of its capacity in the previous year. It has also become increasingly clear that the drop is due to a reduction in the underlying

demand rather than a mere reduction of customers' stocks. The demand is also estimated to remain weak in all the group's product categories and clearly lower than in 2008 until the economic environment starts again recovering. Prices are, however, estimated to remain stable for publishing paper, increase slightly for fine paper, and remain under tight price pressure in connection with board, packaging, and wood products. The demand in all the emerging markets is estimated to remain weak. At the same time, the downturn also affects input costs.

Your task is to analyze the current strategic situation from Stora Enso's point of view. Utilize the peer company UPM Kymmene's information to gain additional insights into the industry, as well as in order to understand Stora Enso's situation more deeply. Your task is to concentrate on the economic downturn, provide a portfolio analysis, and strategies for Stora Enso for the future. Answer the following questions:

1. Environment – Industry analysis

- How has the downturn affected the industry?
- What is the nature of competition in the industry now in the short term?
(It is useful here to apply a structured approach to analyzing the industry)
- What are the industry trends possibly contributing also to the longer term future?

2. Stora Enso's businesses

- Which business units are vital to the organization now and in the future?
- Based on the material, what are the key capabilities and resources of Stora Enso?
- What are its main determinants of competitive advantage?

3. Strategic actions

- How should Stora Enso respond to the downturn?
- Which areas should the company focus on? Or should they?
- Where and how should the company pursue growth in the longer term?
- What could be the longer term vision of the company?

The following pages include information on Stora Enso, its peer company UPM-Kymmene, and the industry. The material is only for your reference, and *it is not obligatory to use everything in the material*. To be efficient with it, it may be wise to first browse it through fast in order to see what kind of information is available. Then you should choose which areas are the most critical from the perspective of

your analysis and concentrate on them. (One purpose of this case assignment is to find and learn to concentrate on the most important critical information.)

Organize your answer under the three above given topics and try to answer all the questions. It is not required for you to write an essay answer. Your analyses and an even a bullet point explanation of your logic of reasoning are sufficient. For example, if you are using an analysis framework you can use it to structure your answer. The most important thing is that you state your analyses and reasoning clearly so that we understand and can follow them.

Stora Enso

- CEO Letter
- Excerpts from the 2008 annual report

An extraordinary year

Stora Enso's CEO Jouko Karvinen and CFO Markus Rauramo discuss the results for 2008, the company's future direction, the launch of the values, vision and mission, restructuring, and the prospects for 2009.

Year 2008 results and challenges

Jouko: Markus, after a tremendously difficult year and fourth quarter, what do you think of our results for 2008?

Markus: They are disappointing, no doubt. At the same time, we were – and are – financially sound with a strong balance sheet. If anything, we were prepared for a tough year because we had already faced some big challenges in 2007. In addition, perhaps most importantly of all, we have done everything possible to prepare for another challenging year in '09.

Jouko: 2007 and the first part of '08 were not easy for a number of reasons, such as the weak dollar, the Russian wood duty threat and booming energy costs from oil prices. And just when our early actions started to have an impact on these issues, we faced the fourth quarter, something nobody has really seen before. Well, after the earlier issues, at least our team was experienced and ready to face the challenge of the fourth quarter.

Markus: Yes, I do feel good about the company and its people because they have shown such readiness and flexibility in dealing with this. Of course this is the benefit. If you can call it that, of having had difficulties with big increases in wood prices, energy costs and currencies in 2007. These were extreme circumstances but we found the means to deal with it.

Jouko: Even with all the public uproar, I am still of the view that we took the right actions in 2008, such as divesting Papyrus, achieving independence from Russian wood and even the difficult restructuring actions. In fact it's not what we did that I worry about, it is whether we moved early and fast enough. Do we as an organisation understand that we have probably made 20% of the necessary change – change required to reach a completely different earnings level?

Markus: Good question. I do think that we have at least found the right tools in the short term to do what we need to do – and that is obviously critical. In 2008 we reduced capital expenditure, which we're doing further, drove down working capital very aggressively and focused on price quality. In the latter part of 2008 and first half of 2009 it's about taking downtime and curtailment in production to be able to match changes in market demand, and adjusting every cost item as fast as possible.

Jouko: Yes, we have done a lot to position ourselves for the short term. Adjusting our manufacturing volumes to real demand was the right decision, which we did within days of the crisis in early October. This not only improved our cash flow, but also positioned us and prepared our people for a fight this year, although it cost us dearly in our fourth quarter earnings.

Markus: As we now continue along the path we embarked upon in late 2007, it is important for our people to understand that this is not only a battle to maximise short-term performance; it is also about

being ready for possible opportunities in investment and even consolidation.

Jouko: So true, especially as our people have been in a perfect storm for so very long. They need to see that there is more to this than cuts and hardship, that there is light at the end of the long tunnel we are in. I hope that when our people read the press they see that, in spite of everything, we are one of the few in our industry who were able to produce a positive, albeit small, operating profit, and that the large negative numbers were not due to 2008 at all; rather they are a revaluation, or impairment, of historical investments over many years against the future world and market situation. Nevertheless, we in management need to keep in mind that these impairments, even if they have no cash impact now, are based on actual past investments with real cash.

Implementing our future direction and restructuring the company

Markus: In September we introduced our strategic priorities to focus on growth markets, fibre-based packaging, plantation-based pulp and selected, if fewer, paper grades. As a starting point, we are uniquely positioned with our operations and projects in Latin America and Asia, such as Veracel and Arapoti in Brazil, our packaging operations and sawmills in Russia, and our paper operations at Suzhou Mill and Dewang Mill in China. There are very few other companies that operate in all of these exciting regions.

Jouko: One of the challenges in our industry is that every strategic move you make is a very large financial bet that takes up to ten years from investment to return – it is almost a generation from those making the bet to those who have to get a return from it.

With this in mind, we have selected packaging because of our presence in specific product and customer segments and East Europe and Russia, and because we are convinced that fibre-based packaging will take over from plastics and other fossil fuel-based packaging. We have selected plantation-based pulp because of our early entry into probably the lowest cost plantation based mill in Brazil, in a segment where, unlike paper and board, the cost differences are large between the best and the worst. Despite selling our North American operations and Papyrus, paper is still very much a part of us, although we would rather be better in fewer segments than just big.

Markus: We can't – or can't afford to – do everything at once, especially in light of the dramatic downturn in the current economy. So we need to be selective, especially in our traditional home markets in Europe. In 2008 we decided to close a board mill and a machine at Balenfurt and Imetra, as well as a paper machine at Kabel. In 2007 we announced the closure of our mills at Kemijärvi, Summa and Nornsundet, helping to decrease our dependence on

Russian wood. This had a huge impact on our people and we worked very hard to find new solutions for our employees. In fact, layoffs are another challenge that we have had to deal with in 2008. We have learned a lot about how you really have to take care of each person individually; you can't find uniform solutions for these issues. Hopefully, after our extensive efforts, the new opportunities at Kenijärvi, Summa and Norrsundet will convince our stakeholders that when we promise to do everything possible to bring in new business and employment, we mean what we say, and we get things done.

Targets for 2009

Jouko: When I first joined this company I spoke of the need for change, and my hope that we could get most of our changes implemented before the downturn came. Well, the downturn came too early for us – or I was too slow. The fourth quarter of '08 and first half of '09 will be the most challenging situation for most industries, including ours, in decades. So we must be honest with our employees and shareholders and say that although we have safeguarded the company in this extraordinary situation, and continue to do so, we have many things still to do, and this process will not be easy or popular in many people's minds. There is no choice: waiting for better times to come, as we have in the past, will mean only greater damage and deeper cuts later on. Time is not on our side.

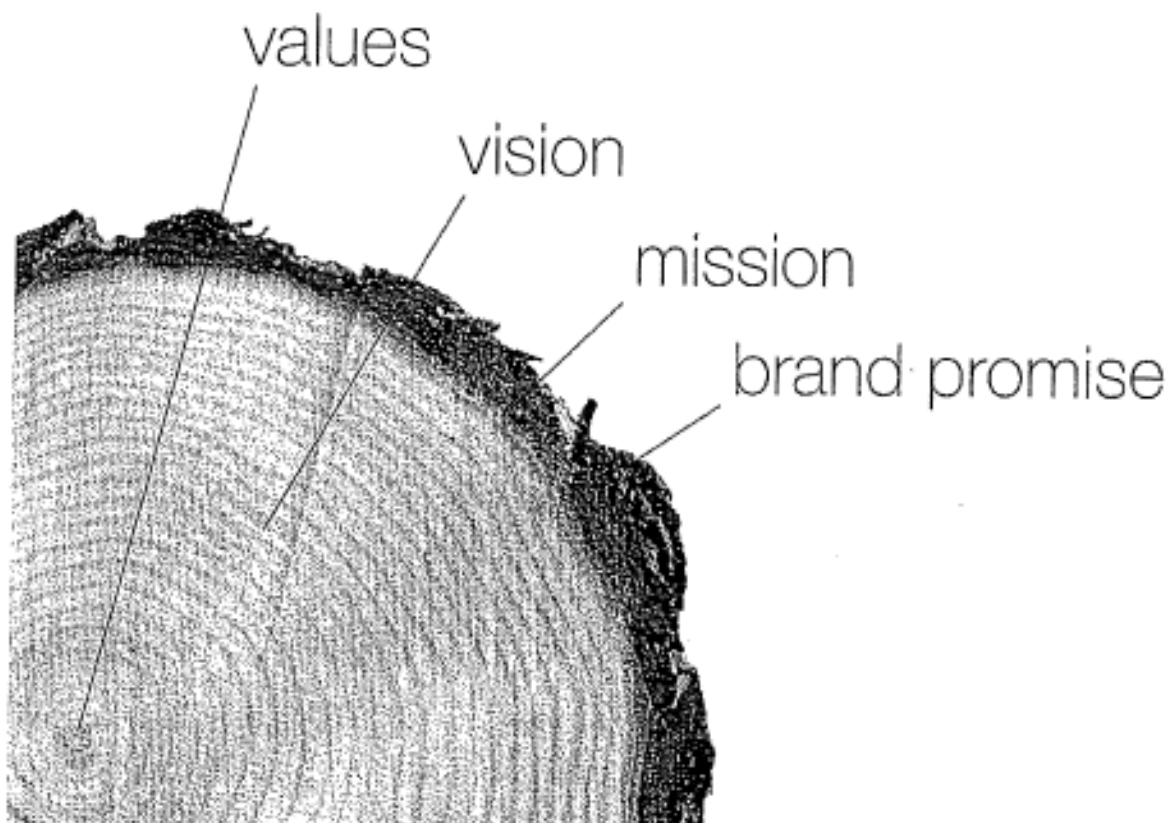
Markus: We have become better at managing our portfolio and taking care of our people who face the impact of capacity cuts, but

we have to continue to find further flexibility in the way we work and run our assets at every level of the company. On the people side, in development, rotation and training, I ask first myself and then our people, "What can you do in your role to cope with the new reality that we're competing with?"

Jouko: Yes, we need to be faster than ever in getting things done and, more importantly, deciding what we should do at all. We still talk and argue about too many things – and that is where time is lost.

This year is probably going to be one of the most interesting and challenging years of my long business life – and yours too, Markus. We will have to find new ways to work with our stakeholders, from employees to unions to society, to dismantle the mentality of We Have Always Done Things Our Way. When we ask, "Can't we do it this way?", people need to stop saying, "No, no, no; we have always done it that way, and we can't change because of this or that reason."

Markus: I think that is absolutely right. We have the capabilities to meet our financial targets, but to succeed we have to build more flexibility into the whole company – flexibility in the way of working, of capital and assets, of supplies, of strategy. Flexibility has an upside for our people. I can't guarantee anyone's job, but my commitment to my own people is that every day you come to work you will learn more, increase your value, become more employable and become more valuable to yourself. We compete in a competitive global market; from the sales force to the mills, every person faces this.





Today we as a company, people and planet face new challenges never before seen. The world needs a new approach to materials.

our vision

Jouko: I hope our people can accept that the difficult things we did in 2007 and 2008 were mission critical. If we had waited until 2009 we would not have been able to do them, and this year we would have had no reason to talk about anything other than getting our heads above water.

Markus: That is exactly why it is so absolutely vital to protect our cash flow and balance sheet in 2009 too.

Jouko: That's a good thought. As I have said before publicly, 2009 began three months early for us in October 2008 when we safeguarded our cash flow and got our inventories down. We are not going to spend our time talking about 13% ROCE this year. The message for 2009 is that we will maximise our cash flow and protect price quality by adjusting volumes rather than price, which we have started to do fairly successfully since October. We will also cut capital expenditure, from a 2008 plan a year ago of EUR 900 million to an actual 2008 of EUR 700 million, all the way to a 2009 plan of EUR 500 million, of which the clear majority has to come from further reduction of inventories that add no value – that is now the task for us.

Not every initiative will be cut by 70%. Rather, we will make certain investments at full speed and reschedule others – or cancel them, but only if there is no return in the new reality we face. Our priorities are the same as they were in August; we won't change strategy because of the financial turmoil, although we will reschedule some projects.

Key figures

Continuing operations	2008	2007
Sales, EUR million	11 028.6	11 848.5
Operating profit/loss excl. NRI and fair valuations ¹ , EUR million	388.4	651.1
Operating profit/loss (IFRS), EUR million	-728.6	176.9
Profit before tax excl. NRI, EUR million	191.6	970.1
Profit before tax, EUR million	-893.6	20.2
Net profit excl. NRI, EUR million	142.8	747.3
Net profit, EUR million	-679.0	12.8
Capital expenditures, EUR million	704.7	768.3
Return on capital employed (ROCE), excl. NRI, %	3.4	11.3
ROCE, excl. NRI and fair valuations, %	4.1	8.6
Return on equity (ROE) ² , %	-10.1	-2.5
Debt/equity ratio ³	0.56	0.39
Deliveries of paper and board, 1 000 tonnes	11 838	12 477
Deliveries of corrugated packaging, million m ²	1 071	1 091
Deliveries of wood products, 1 000 m ³	6 893	6 348
Average number of employees	33 815	36 137

Share information

Continuing operations	2008	2007
Earnings/share excl. NRI, EUR	0.18	0.94
Earnings/share, EUR	-0.86	0.01
Cash earnings/share excl. NRI, EUR	0.99	1.94
Cash earnings/share, EUR	0.94	1.95
Total operations		
Earnings/share excl. NRI, EUR	0.19	0.89
Earnings/share, EUR	-0.85	-0.27
Dividend and distribution/share, EUR	0.20 ³	0.45
Equity/share, EUR	7.09	9.60
Payout ratio, %	105 ³	51
Market capitalisation, 31 December, EUR billion	4.4	8.1

¹ Fair valuations include synthetic options net of realized and open hedges, CO₂ emission rights, and valuations of biological assets mainly related to associated companies' forest assets.

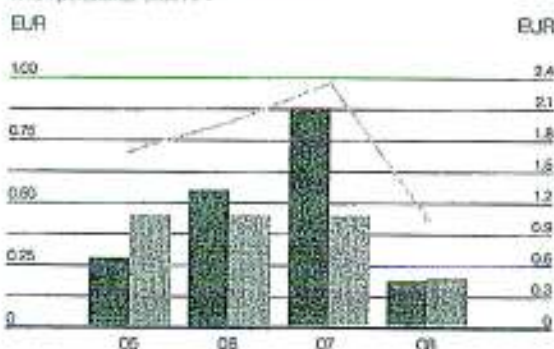
² Total operations

³ Board's proposal for distribution of funds

NRI = Non-recurring items

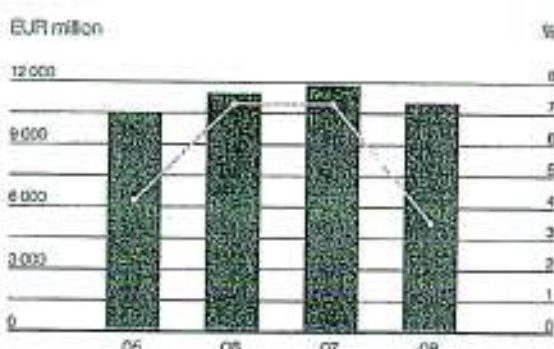
Earnings and distribution per share

Total operations, excl. NRI



- Earnings per share
- Dividend per share
- Board's proposal for distribution of funds
- Cash earnings per share

Sales and operating profit



- Sales
- Operating profit excl. NRI and fair valuations as % of sales

Number of employees by country 2008*



- Finland 33%
- Sweden 21%
- Germany 10%
- Poland 7%
- Russia 5%
- Other Europe 17%
- China 5%
- Brazil 1%
- Other countries 1%

* Continuing operations

Paper and board capacity by country 2009



- Finland 42%
- Sweden 28%
- Germany 14%
- China 3%
- Brazil 1%
- Other countries 12%

Newsprint and Book Paper

Stora Enso Newsprint and Book Paper produces newsprint and directory and book paper, primarily for publishers and printing houses. Our newsprint products include a wide range of standard newsprint and improved newsprint grades, including tinted paper for sports and business sections and supplements. Our book and directory paper range includes paper for hardback and paperback books, telephone directories and timetables.

Magazine Paper

At Stora Enso Magazine Paper we offer a wide range of paper for magazines and advertising. Publishers, printing houses and retailers use our uncoated magazine paper for periodicals and advertising materials such as inserts and flyers, as well as mass-circulation TV magazines and catalogues. Specialist and general interest magazines are significant customers of our coated matt, silk and glossy magazine paper, which our customers also use for items such as supplements, home shopping catalogues and magazine covers.

Fine Paper

Stora Enso Fine Paper produces graphic and office paper for printers and publishers, merchants, envelope converters, office equipment manufacturers and office suppliers. Our fine paper mills are located in Finland, Sweden, Germany and China. Our graphic paper grades are mainly multicoated fine papers for art books, annual reports, luxury magazines and brochures. Our office paper grades are uncoated fine papers for office and digital printing, envelopes, notebooks and pads and business forms.

Consumer Board

Stora Enso Consumer Board is the world's leading consumer board company, making packaging materials for a wide range of products. We are a specialist producer of liquid packaging board, food service board, graphical board and carton board for use in packaging food, beverages, cigarettes, pharmaceuticals, cosmetics and luxury goods, and we lead the way in high-end applications.

Industrial Packaging

Stora Enso Industrial Packaging makes corrugated packaging, containerboard, cores and coreboard, laminating papers, paper sacks and sack kraft and MG kraft paper.

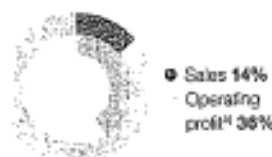
Wood Products

Stora Enso Wood Products – or Stora Enso Timber as we are known in the marketplace – provides product and service solutions to wood product industries and trade customers worldwide. We focus on the construction, joinery and packaging industries and provide engineered fit-to-use products for manufacturing processes. We also supply a wide range of sawn and processed wood products to timber retailers, merchants and importer-distributors, and provide raw materials to the pulp and panel industries and the energy sector.

① Business areas in brief

business areas in brief | our promise

Share of Group



Capacity by country 2009

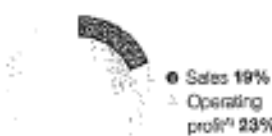


Market share and main markets

	Europe	Asia
Market share %	19	2
Main markets (% of sales)	86	13

② NEWSPRINT AND BOOK PAPER

Share of Group



Capacity by country 2009



Market share and main markets

	Europe	Latin America	Asia
Market share %	17	39	4
Main markets (% of sales)	79	11	5

③ MAGAZINE PAPER

Share of Group



Capacity by country 2009



Market share and main markets

	Europe	Latin America	Asia
Graphic Papers			
Market share %	12	10	2
Main markets (% of sales)	69	9	18
Office Papers			
Market share %	12	1	1
Main markets (% of sales)	65	2	8

④ FINE PAPER

Share of Group



Capacity by country 2009



Market share

	Europe	North America	Asia
Main markets (% of sales)	82	1	15

Due to the fact that Consumer Board consists of various products, a general market share for that business area is not applicable.

⑤ CONSUMER BOARD

Share of Group



Capacity by country 2009^{B)}



Main markets

	Europe	North America	Asia
Main markets (% of sales) ^{A)}	85	3	10

1) Excluding corrugated packaging
2) External sales

Due to the fact that Industrial Packaging consists of various products, a general market share for that business area is not applicable.

⑥ INDUSTRIAL PACKAGING

Share of Group



Capacity by country 2009



Market share and main markets

	Europe			World
	Europe	North America	Asia & Oceania	North Africa & Middle East
Market share %	4			2
Main markets (% of sales)	65	1	21	8

⑦

A) Excluding non-recurring items and fair valuations

WOOD PRODUCTS

① NEWSPRINT AND BOOK PAPER



"The role of printed media is changing. Printed and electronic media complement each other, giving printed media a fresh new future. We have worked hard to adapt our business to changing customer demand, and will continue to do so."

Juha Vanhainen

Executive Vice President, Newsprint and Book Paper
Country Manager Finland

Stora Enso Newsprint and Book Paper produces newsprint and directory and book paper, primarily for publishers and printing houses. Our newsprint products include a wide range of standard newsprint and improved newsprint grades, including tinted paper for sports and business sections and supplements. Our book and directory paper range includes paper for hardback and paperback books, telephone directories and timetables.

Responding to change

Stora Enso Newsprint and Book Paper is the number one producer of newsprint and book paper in Europe. Our mills produce a wide range of products from both recycled and fresh fibre. Of our six newsprint mills, Langerbrugge in Belgium and Sachsen in Germany offer newsprint made from 100% recovered fibre, Hylte Mill in Sweden makes newsprint from 50% recovered fibre and Maxau Mill in Germany from 60%. Anjala Mill in Finland is Stora Enso's only book paper mill.

In newsprint, our challenge is to adapt to changing consumer behaviour while maintaining the efficiency and cost-competitiveness of our mills. To achieve this we need to be responsive to market conditions and willing to change when necessary. We will continue to develop profitable mills, but are ready to shut down older capacity if market conditions require us to do so.

We will also continue to review our product and customer portfolio and adjust volumes towards more profitable grades. In adapting our

business more closely to the market, our goal is to maintain profitability and strong cash flow.

Working closely with our customers

At Stora Enso Newsprint and Book Paper we place a high value on providing solutions to our customers, working closely together with them over the long term. In Varkaus in Finland, for example, one of our paper machines is located on the same premises as the printing press of a Finnish newspaper group. This ensures that the newspaper in question benefits from a paper supply that is instantly available and flexibly produced.

Although newsprint demand is predicted to decline in Europe and North America in 2009, we expect global demand for printed newspapers and books to remain high or increase. Printed newspapers and books are not only flexible enough to read anywhere, they're also a sustainable, accessible and low-cost alternative to online media. Newspapers are also a potent advertising medium, effective in targeting different reader groups with items such as individual supplements.

We have a large market share in bulky mechanical book paper in Europe, with Germany the largest market, followed by the UK and Italy. In 2008 we converted the magazine paper machine at Anjala Mill to produce coated and uncoated book papers. This investment further improved the quality of our coated book paper, allowing us to take a greater share of the textbook and other hardcover book

markets. We have also established long-term relationships with several major book publishers, and broadened our book paper portfolio by working closely with our customers to develop products answering their needs.

Increasing our use of recovered paper

Recovered fibre is a valuable raw material and we are focused on getting the most from it, reflecting our company commitment to use resources as efficiently as we can. We are already one of Europe's largest users of recovered paper, and plan to increase our use of it further. We always aim to use recovered paper as near as possible to where it is collected, reducing the costs and environmental impacts associated with transportation.

We use recovered fibre where it creates the most value for the Group and our customers, based on the paper grade quality requirements. It is most suitable for products with a short lifecycle, such as newsprint, one of our main uses for recovered fibre. Our standard newsprint contained an average of 79% recycled content in 2008.

Another environmental benefit of products made from newsprint and book paper is that they can be recycled at the end of their life and used again as raw material. Newsprint and book paper also store carbon, keeping it out of the atmosphere and helping to reduce the effects of climate change, as do all of Stora Enso's paper and wood products.

from 10% to over 50%, significantly reducing its fuel costs and increasing its use of bioenergy. Langerbrugge Mill produces newsprint and magazine paper from 100% recovered fibre, so the investment means that the mill will use an even greater quantity of renewable raw materials in its production processes.

A challenging operating environment

The primary drivers of newspaper demand are advertising spend, economic growth and reading habits. In Europe and North America newspaper circulation is declining slowly but globally it is increasing. Our main market is Europe, although we export large quantities of paper to various growth markets in Asia.

We experienced a challenging operating environment in 2008. Market demand remained weak and the economic downturn depressed demand further towards the end of the year. In response, the industry announced major capacity closures in Europe and North America during the year, reducing the supply of newsprint. Prices fell in Europe at the beginning of the year, whereas they increased strongly in overseas markets, particularly in the second and third quarters. The

Books can last for many decades, during which time they keep the carbon within them from being released into the atmosphere.

Increasing bioenergy in internal energy production

The nature of Stora Enso's production processes means that we can re-use many of the by-products as a source of bioenergy. The most important of these are black liquor from pulp cooking, bark and de-inking and bio-sludge. Other important sources of bioenergy are logging residues and recovered wood.

The paper industry is the world's largest producer and user of bioenergy. In 2008, Stora Enso increased its use of biomass for internal energy production to 72% (70%). This was due to lower dependence on fossil fuels in producing energy internally. Another reason for the increase in the use of biomass was an increase in the market value of carbon credits, and also a significant increase in the price for fossil fuel in 2008 compared to 2007.

Stora Enso is continuously working to increase the already high share of bioenergy it uses in internal energy production at its mills. One such major initiative from Newsprint and Book Paper is our project to improve the energy efficiency of Langerbrugge Mill. As a result of this project – which began in 2007 and is scheduled to finish in the second quarter of 2010 – the mill will use a more competitive fuel mix in combined heat and power generation. This will improve its electricity self-sufficiency

strong euro hastened imports from the USA and Canada early in the year, but these have declined since the spring.

Restructuring our business for growth

Our main events in 2008 were planned restructuring activities to keep our business cost-effective, and all such events went according to plan. In January 2008 we shut down Summa Mill in Finland, with an annual capacity of 415 000 tonnes of newsprint, uncoated magazine paper and book paper. Our mills in Finland, Sweden and Western Europe now serve Summa's customers.

Following the closure of Summa Mill, we transferred 65 000 tonnes of book paper production to Anjala Mill. Anjala Mill converted paper machine (PM) 2, a coated magazine paper production line with an annual capacity of 155 000 tonnes, to produce book paper, at a cost of EUR 29 million; it also permanently shut down PM 1, with an annual capacity of 120 000 tonnes of book paper. As a result of these changes, Anjala Mill's total annual production capacity is now 435 000 tonnes of book paper and improved newsprint, of which 320 000 tonnes is book paper.



"In a market with slow growth, changing media and a gloomy economic outlook, we continue to be proactive, reinventing ourselves and our processes to maintain a strong business position."

Hannu Alajauri

Executive Vice President, Magazine Paper

At Stora Enso Magazine Paper we offer a wide range of paper for magazines and advertising. Publishers, printing houses and retailers use our uncoated magazine paper for periodicals and advertising materials such as inserts and flyers, as well as mass-circulation TV magazines and catalogues. Specialist and general interest magazines are significant customers of our coated matt, silk and glossy magazine paper, which our customers also use for items such as supplements, home shopping catalogues and magazine covers.

Magazine Paper offers excellent choices and trusted supply for media and advertising

Magazine paper purchasers are open to new ideas for items such as magazines, catalogues, retail marketing and inserts, since they are constantly on the lookout for new and improved solutions. Our wide range of magazine paper offers excellent choices.

We all recognise the ongoing changes in media. At Stora Enso Magazine Paper, we see electronic media as complementing, as well as competing with, our offer to end-users. We aim to deliver solutions that use printed media alone and in combination with other media types to deliver content and capture end-user interest. Printed media is very efficient, particularly in push marketing, and in recent years our paper supply to direct mail has grown almost 5% annually.

Stora Enso is a trusted supplier with an excellent reputation for maintaining a timely supply of paper and keeping promises. In 2008

we maintained an uninterrupted supply of paper to our customers, despite closing down some mills and production lines. A reliable paper supply is vital for printers since typically they operate with limited paper inventories and tight schedules.

A sustainable magazine paper provider

At Stora Enso we are committed to running a transparent and responsible business. The increasing prominence of environmental issues such as illegal logging means that our customers, and their customers, demand to know the origin of the wood we use in our products. All of the wood we use is from sustainable sources and we are able to trace its origin, no matter where it was sourced.

Our customers also want to know about carbon emissions from our paper production. Magazine paper production is energy intensive, and we are fully committed to finding ways to improve our energy efficiency and minimise our carbon dioxide emissions. For example, we have invested in improving energy efficiency at Maxau Mill in Germany and Langerbrugge Mill in Belgium. At Maxau Mill we aim to reduce fuel costs and increase the mill's use of bioenergy by using a more competitive fuel mix in combined heat and power generation. The mill will be more self-sufficient in electricity as a result of this investment, which we are scheduled to complete in the second quarter of 2010.

We are fully committed to the use of recovered fibre in our paper production. Many of our magazine paper grades include recovered

fibre, although most also include fresh fibre. Since starting up Dawang Mill in China, we have significantly increased the overall share of recovered fibre used in the production of our magazine paper. The mill makes an uncoated supercalendered paper, called EnviPress, entirely out of recovered fibre. EnviPress is the only 100% recycled uncoated supercalendered paper made in the Asia-Pacific region. Today the mill gets most of the paper it recycles for this from the USA but is investigating ways to source more local recycled paper.

The retail, publishing and advertising sectors have been fast to adopt the new high quality grade because it is easy to print on, runs well in printing presses and is priced competitively. The paper was used for Volunteer, an official magazine of the Beijing 2008 Olympic Games.

Strengthening our position in growth markets

The magazine paper business is characterised by demand for high quality and large volumes. At Magazine Paper we aim to offer top quality products on competitive terms and maintain a strong supplier position in our markets.

Today we enjoy a strong position in the main markets of Europe. A key advantage is that our magazine paper mills in Central Europe – four of the Group's nine magazine paper mills – are located close to our customers. We expect this to be particularly valuable in the tough market conditions of 2009.

While Europe remains a highly important market for us, we have also moved decisively to establish leading positions in China and Latin America.

We are China's leading producer of supercalendered (SC) magazine paper. In January 2008 we inaugurated Dawang Mill, an SC paper mill with an annual capacity of 200 000 tonnes. Dawang Mill is operated by Stora Enso Huatai Paper Company, owned 60% by Stora Enso and 40% by Shandong Huatai Paper.

We continue to be the leading producer of coated magazine paper in Latin America. In Brazil, we have further improved product quality at Arapoti Mill, owned 80% by Stora Enso and 20% by Chilean Arauco. The high quality of the mill's lightweight coated paper has helped Stora Enso to improve its market position in the region.

Growing uncertainties depressed demand after the Beijing 2008 Olympic Games

Advertising and consumer spending drive magazine paper demand. In recent years, demand has grown slowly in Europe. Market demand for magazine paper, particularly SC paper, was good in the first half of 2008 and increased strongly in Eastern Europe. Industry forecasts for 2009 indicate a market decline of 3–4%. However, at this stage it is very difficult to predict how long the economic slowdown will last or its consequences for paper demand.

The global financial crisis and gloomy macroeconomic outlook began to have an impact on magazine paper demand after the Beijing 2008

Olympic Games, particularly for coated mechanical papers. Before the year-end we anticipated depressed demand in the first quarter of 2009 due to de-stocking and slow advertising activity. To safeguard cash flow and low inventory levels, we began taking major curtailments at the end of the fourth quarter of 2008, and prepared for further capacity management actions at the start of 2009.

Capacity management – temporary curtailments or, if required, permanent closures – will be needed to maintain a healthy supply-demand balance. Cost and working capital management will also be more important than ever before. We will reinvent our processes to adapt to uneven demand, and reduce both finished goods and raw material inventories to safeguard our cash flow.

This will mean very close co-operation with our customers and suppliers to maintain high service levels and smaller reserve stocks, as well as open dialogue to help us all prepare for rapid changes in demand. We will meet these challenges together with our customers and suppliers.

Main events of 2008

We improved our profitability in 2008, following a difficult 2007. We achieved this through mill and machine closures and by reducing fixed costs in all units. Despite these efforts, we did not reach our financial targets.

We improved our supply-demand balance and asset competitiveness in 2008 by closing capacity. Anjala Mill in Finland converted its paper machine (PM) 2, a 155 000-tonne coated magazine paper production line, to produce book paper. In January 2008 we shut down Summa Mill in Finland, with an annual capacity of 415 000 tonnes of newsprint, uncoated magazine paper and book paper.

In September 2008 we also announced our plan to close down PM 3 at Kabel Mill in Germany by the end of the year. This machine, with an annual capacity of 140 000 tonnes of coated magazine paper, was shut down in November 2008. Since 2008, Stora Enso has closed down 810 000 tonnes of non-competitive magazine paper capacity.

We also began further productivity improvement measures in operations, maintenance and administration at Kvarnsveden Mill in Sweden, Maxau Mill in Germany, Veitsiluoto Mill in Finland and Langerbrugge Mill in Belgium.

③ FINE PAPER



"In the present unstable and weakened market conditions, our goal remains to be one of the most profitable players. We offer efficient production units, cost-competitive raw materials and an innovative approach to customer service through initiatives such as sheeting operations that are close to the market."

Aulis Ansaharju

Executive Vice President, Fine Paper

Stora Enso Fine Paper produces graphic and office paper for printers and publishers, merchants, envelope converters, office equipment manufacturers and office suppliers. Our fine paper mills are located in Finland, Sweden, Germany and China.

Our graphic paper grades are mainly multicoated fine papers for art books, annual reports, luxury magazines and brochures. Our office paper grades are uncoated fine papers for office and digital printing, envelopes, notebooks and pads and business forms.

Advertising drives coated fine paper use. The use of uncoated office paper depends on factors such as desk printing and online work habits.

Aiming to be Europe's most profitable fine paper supplier
Our goal is to be the most profitable fine paper supplier in Europe. We will achieve this through cost-efficient production backed up by a firm order inflow and excellent customer service. Our pulp and paper mills are located near to both our raw materials and our customers, providing a firm foundation for our business to be cost-effective. We must distribute our products efficiently and develop affordable new solutions to take advantage of this.

To improve profitability, we will implement several cost saving and efficiency measures in 2009. These include outsourcing maintenance functions at certain mills and reducing administration costs as part of the Group's focused administration programme.

Continuing to win our customers' trust

Excellent printability and runnability are crucial for graphic fine papers. Our products, such as the Lumi paper range, offer consistently high quality and an excellent combination of brightness, smoothness and whiteness, ensuring clear, bright images. We offer printers and publishers the reliability they need for today's printing applications.

Flexibility and experience are key to success in the office papers market. We tailor our office papers, such as MultiCopy and 4CC, to meet the needs of today's work environments and technologies, from rapid advances in information technology to fast-developing digital printing techniques. In addition, our considerable resources and expertise allow us to lead in innovation and support our customers with reliable service and consistent quality.

The fine paper market in general values cost-competitive, high-quality production and excellent customer service. Our customers demand lightning-fast response times, just-in-time deliveries, availability and reliability. In such a market, the central location of our paper mills and service centres is a real asset, allowing us to source our materials and deliver our products in response to our customers' demands. We distribute most of our products through dedicated paper and office supply merchants, and some direct to large publishers and printers.

In early 2008 we divested our paper merchant business Papyrus. Papyrus is a trusted supplier that has long distributed a significant

proportion of our fine paper, and continues to do so thanks to a long-term supply agreement in the terms of the divestment. With Papyrus an independent agent, we are able to deal impartially with our merchant customers – no longer competing with them – and our other distribution channels.

Most of our fine paper mills integrate paper production and pulp manufacturing, an approach that uses a high proportion of bioenergy, reducing the need for fossil fuels. This contributes to our fine paper products' favourable carbon footprint, reflecting Stora Enso's deep commitment to sustainability.

Low-cost fibre from sustainable sources

Our fine paper mills in Finland, Germany and China use low-cost eucalyptus pulp from Veracel Pulp Mill in South Bahia, Brazil. Veracel is a state-of-the-art pulp mill and eucalyptus plantation and a joint venture between Stora Enso and Brazilian eucalyptus pulp producer Aracruz. As a consequence of receiving a Forest Stewardship Council (FSC) Forest Management Certification in March 2008, all of the pulp produced at Veracel's mill is FSC certified. Since much of Veracel's pulp ends up in our coated fine paper, a number of graphic paper products made from Stora Enso fine paper now bear the FSC label.

In addition, Veracel was certified in 2006 by the Brazilian Program of Forest Certification (CERFLOR), which is endorsed by the Programme for the Endorsement of Forest Certification schemes (PEFC). This certifies that Veracel's tree plantation operations are socially beneficial and managed in an environmentally appropriate and economically viable way.

Veracel is committed to a best practice approach to plantation management, and pursues its own sustainability agenda, which it has agreed with its owners. This involves environmentally responsible measures at the pulp mill and on the plantations, a strong commitment to social responsibility and active stakeholder dialogue.

Veracel plantations occupy only half of the lands it has acquired. It has a unique plantation setup where it plants trees on flat areas and allows original vegetation to regenerate naturally in valleys. In addition, each year Veracel restores of some 400 hectares of local rainforest, helping to conserve local biodiversity.

Veracel employs 4 022 people directly and through contractors at the mill and plantations. According to a study conducted by Brazilian research institute Fundação Getúlio Vargas, Veracel adds 30 400 jobs to the Brazilian economy in addition to those people employed at the mill. It also partners with 98 local small farmers who supply it with plantation wood and supports several local social projects.

Taking action in a tough market

Market demand remained weak for fine paper products in Europe in 2008. By closing around one million tonnes of production capacity, the supply-demand balance was improved for coated fine paper during the year. Around 1.3 million tonnes of global production

capacity reductions in coated fine paper has been announced since the beginning of 2007.

We have chosen to take the necessary tough steps to keep our business effective in this challenging global economy. We will continue to adapt and innovate to maintain our ability to lead the market.

Uncoated fine paper production capacity reductions were barely enough to offset the decrease in European demand. We expect the market for uncoated fine paper to continue to be challenging in 2009 due to a further 4–6% decrease in European demand. Although we were able to implement some price increases successfully, primarily in coated fine paper, price development remained unsatisfactory.

Stora Enso Fine Paper aims to win and retain significant market share in its target markets in Europe, China and Russia. Our coated fine paper performed better than uncoated fine paper in 2008.

Fewer major initiatives in 2008

Our main investments in 2008 were a new foil sheeting line at Oulu Mill in Finland and a new sheet cutting line at Veitsiluoto Mill in Finland. In 2007 we finalised a number of significant strategic investments in office paper, which we had intended to make good use of this year. However, we were not able to make full use of this new capacity due to decreased demand during the year.

After our large-scale restructuring measures in 2007, we made no permanent closures or divestments in Fine Paper in 2008.



"40% of the world's food is wasted due to inadequate packaging. Packaging that protects food properly is a necessity and a growth business in an increasingly global world."

Mats Nordlander

Executive Vice President, Consumer Board

Stora Enso Consumer Board is the world's leading consumer board company, making packaging materials for a wide range of products. We are a specialist producer of liquid packaging board, food service board, graphical board and carton board for use in packaging food, beverages, cigarettes, pharmaceuticals, cosmetics and luxury goods, and we lead the way in high-end applications.

Growth through strong customer relationships

We will maintain and develop our global leadership position by further strengthening the competitiveness of our existing production units and seeking outstanding growth opportunities. We aim to grow in core markets by building on profitable customer segments and meaningful leadership positions, and in the long-term by developing more value-added services for our business.

Stora Enso is firmly committed to curbing climate change on a global scale, and at Consumer Board we strongly promote packaging based on renewable wood fibre. Fibre-based packaging has a smaller carbon footprint than packaging made from non-renewable materials, making fibre-based packages better for the environment.

At Consumer Board we place a high value on enduring customer relationships. One of our growth strategies is to develop our business with existing customers as they become global, taking advantage of the scale of our company and its resources. This allows us to continue to serve our customers, and to avoid searching for new customers or markets alone.

Our business environment is stable and offers healthy growth with reasonable profitability. We have a significant market position in our segments, and our customers see us as a leading player that actively develops the entire packaging value chain.

Meeting our customers' needs with excellence

We strive to understand and meet the needs of both our customers and packaging consumers with added-value solutions and innovations. This forms the basis for successful long-term partnerships with our customers: for instance, a major customer recently ranked Stora Enso Consumer Board as its number one supplier.

We offer a wide combination of board properties, grades and weights to ensure optimum packaging performance for most applications. For example, our products offer excellent visual appearance, which major brands are able to exploit for powerful product marketing. Another reason we lead the market is that we offer local customer service and can respond rapidly to our customers' changing needs.

Product safety is also vital to ensure that food, food packaging and other sensitive packaging materials are safe for use. We meet stringent product safety requirements at our mills with certified product safety hygiene management systems. These require sound manufacturing practices and the use of high-quality raw materials that are approved for food contact. Our versatile, lightweight, paperboard packaging

prevent product waste by fully protecting packaged content against physical damage, contamination and light.

Thinking out of the box

Stora Enso promotes creative thinking and innovation as an engine to drive the business forward and achieve success. At Consumer Board, we pride ourselves on world-class research and development (R&D) capabilities. Our future growth depends on being able to develop innovative packaging solutions for our customers' needs.

Our customers increasingly require lighter packaging materials. We have achieved lighter and stiffer boards by using the latest technologies and techniques in our production process, as well as finding new ways to use raw materials more efficiently, consuming fewer resources. This work has been particularly successful in liquid packaging board, where we have significantly reduced our use of raw materials per tonne of board. Lighter materials are also important in carton board, since they reduce the quantity of packaging, saving space and weight (and cost) in both transportation and disposal.

Another result of our winning innovation process is new barrier solutions in food service boards. These bio-barriers have enabled us to produce 100% biodegradable cupstock.

These innovations not only keep our business competitive, they also reduce the carbon footprint of consumer packaging, making it more sustainable.

Rising to the challenges

To maintain our leadership, we must improve our profitability and compete with paperboard entrants from Brazil and China, in addition to our Nordic competitors. Moreover, we must deal with the current issues of low sales margins, continuous overcapacity in Europe and costly wood supplies.

We will rise to these challenges by further increasing our efficiency and ensuring a cost-effective and sustainable supply of raw materials and energy at our mills. We will also gain market share from competing materials – here the renewability of our raw material and smaller carbon footprint of our products is a huge draw – and serve growth markets efficiently, all while maintaining our quality advantage.

At Stora Enso we value the trust that our customers place in us. Our priority is to maintain our long-term competitiveness and profitability as a basis to deliver the high-quality products and innovations and lower costs that they expect from us.

Ahead on sustainable packaging

Sustainability is increasingly important in packaging materials, and we are fully committed to ensuring sustainable materials and energy use at all levels of our business. Our products provide climate-friendly alternatives to products made from non-renewable materials. Fibre-based board is renewable and recyclable. Furthermore, we use a high ratio of bioenergy to make consumer board at our mills, reducing our carbon footprint further. Our packaging products can

be recycled safely, either by recovering the fibre to make new products or by burning as bioenergy (landfill is a last resort). Wood fibre can be recycled four to six times, while recovered fibre can be used for products such as white lined chipboard (which we produce at our Barcelona Mill in Spain), newsprint, coreboards, container boards and magazine papers. Stora Enso is fully committed to increasing its use of recovered fibre.

Calculating carbon footprints

More than ever, consumers are interested in renewable and recyclable packaging. To help our customers to determine their own carbon footprint, we have calculated the carbon footprints of Consumer Board's main products – just one example of Stora Enso's company-wide product carbon calculations in 2008. Fibre-based packaging materials normally represent 3–10% of a product's total carbon footprint, including its content.

Stora Enso Consumer Board's carbon footprint calculations are based on the life cycle approach and the rules developed by the European Paper Industry. We will update these carbon footprint calculations as new publicly approved methodologies for calculation become available.

Restructuring for the long-term

2008 was a challenging year in many respects, causing us to miss our profitability targets. This required a bold response, and we took some severe restructuring actions during the year to improve cost-competitiveness and secure the long-term health of our business.

We permanently shut down the carton board machine at Balenfurt Mill in Germany. We will also permanently shut down board machine (BM) 1 at Imatra Mills in Finland and two polymer coating (PE) machines due to reduced polymer coating needs. Despite strenuous efforts to restore profitability at Balenfurt and Imatra BM1, we would not have been able to reach our profitability targets for these facilities in the long term.

We are also working hard to secure the long-term competitiveness of our remaining mills. By closing unprofitable mills, we will be able to invest in units that offer the right product mix and a competitive cost base. We are implementing an investment programme for improving production quality and efficiency at our Imatra and Ingeröls mills in Finland.

We intend to improve the mills' profitability by further simplifying our production base and increasing productivity for each machine. We will also address the challenge of moving our products to the other mills and serving our customers from there. The benefits of these adjustments to our customers will be higher flexibility and improved quality.

Developing growth markets

Fibre-based packaging offers long-term growth rates of 2–6% in most segments. China is a key market for liquid packaging boards, particularly the aseptic segment, offering almost 50% of anticipated global growth over the next 10–12 years. In carton board, expansion in growth markets is outpacing that of mature markets, too. However,

in healthcare, pharmaceuticals and luxury goods, mature markets are growing faster than the market average.

Building a financially sustainable future

Stora Enso Consumer Board is building a future business that is profitable in the long term. Our mills are shifting production and we have outlined new focus areas for mature markets. Growth markets are also likely to play a major role in our future growth.

In the short term, it is important to restore profitability and ensure healthy businesses at all our mills in Europe. We need to take firm action to improve the competitiveness of our mills, ensuring that they remain world class.

In the mid-term, we need to increase profitable growth and establish a presence in at least one growth market. In the long term, our goal is to be the undisputed global leader in our business. We are a customer-driven company with a deep knowledge of the consumers of packaging products; we are inspired by our ability to leverage this to provide our customers with innovations and solutions that enhance their success.



Stora Enso Industrial Packaging makes corrugated packaging, containerboard, cores and coreboard, laminating papers, paper sacks and sack kraft and MG kraft paper.

Our corrugated packaging products range from consumer goods sales packages to transport packages. Our packages for consumer goods are often offset-printed microflute products for the electronics, food and beverage industries. Our transport packages are typically flexo-printed and vary from standard box applications to tailor-made heavy-duty boxes; these are used for industrial chemicals, paper industry, food and beverages, televisions, machines and spare parts. Our heavy-duty packaging business is entering market segments that traditionally use plastic and wood as packaging materials, such as automotive and electronics, and offers significant savings in transportation costs and disposal and recycling of packaging.

Stora Enso subsidiary Corenso United is one of the world's leading producers of high-quality coreboards, high-performance cores and tubes, and edge protectors. It supplies heavy-duty cores mostly to manufacturers of paper and board, plastic film and flexible packaging. Corenso serves customers globally.

Building growth markets, innovation and cost-competitiveness

Low-cost raw materials and efficient manufacturing is the key to cost-efficient production of industrial packaging products. We

⑤ INDUSTRIAL PACKAGING

"Our innovative packaging solutions can reduce our customers' logistics costs significantly. Our strong position in selected product segments and growth markets in Central and Eastern Europe will enable us to regain our excellent record of performance and grow further."

Veli-Jussi Potka

Executive Vice President, Industrial Packaging

achieve this partly by recycling and manufacturing our own raw materials, containerboard and coreboard. Our long-term target is to increase our self-sufficiency in corrugated packaging raw materials.

A region's level of economic development is a key driver for its corrugated packaging demand. At Industrial Packaging we focus on selected markets, customers and product segments, seeking a strong position wherever we operate. Our key geographic areas for corrugated packaging are Scandinavia, Eastern Europe and Russia. Eastern Europe and Russia account for some 65% of our corrugated packaging capacity and offer strong growth potential due to today's low packaging consumption per person. Our corrugated packaging operations also offer highly skilled packaging design. Our cores business has a strong market position, particularly in the paper industry.

Our goal is to continue profitable growth of corrugated packaging and cores in our selected markets, and further develop an integrated cost-competitive supply of raw materials. In the near-term we will make the most of our plants that began operating in 2006, and actively seek new growth opportunities. We also plan to improve our cost-efficiency further and develop more packaging innovations and solutions. Fibre-based packaging is one of our future growth areas.

At the heart of our markets

Corrugated packaging is an essential part of product logistics. It protects a product during storage, transportation and handling and,

as a marketing medium, can help a brand owner to build a brand and promote sales. However, it cannot be transported feasibly over long distances, and therefore production units need to be located close to customers.

All of Stora Enso's corrugating packaging plants are well located for their markets, enabling us to offer our customers fast response times, flexibility, just-in-time deliveries and local service. All are vital to the continued success of our business, helping us to build trust and long-term partnerships with our customers.

Fibre-based packaging materials and cores and coreboards are excellent solutions from a sustainability point of view. They are made from wood, which is a renewable resource (Corenso's products contain 90% recycled fibre), and are fully recyclable, offering a lower carbon footprint than fossil fuel materials like plastic and metal.

Our operations cover the entire value chain from recovered paper collection and pulp production to packaging production, including packaging design and planning and delivering packing machinery.

Mixed demand in 2008

After a good start to the year, European demand for corrugated packaging started to cool off in the second quarter, and containerboard demand has since remained weak. This caused recycled-fibre-based (RCP) containerboard inventories to rise, leading to declining prices. Prices of semi-chemical (SC) fluting and corrugated packaging were relatively stable.

Russia, making us the first foreign packaging company to invest in such packaging production in Russia. In September we started production at our offset-printed microflute packaging plant at Komárom in Hungary.

Our subsidiary Corenso United took a number of restructuring actions to increase its efficiency and long-term ability to weather the economic storm. It closed down its core factory in Newcastle in the UK at the end of 2007, concentrating production on our two remaining UK facilities in Bolton and Milton Keynes. In addition, at the end of 2008, Corenso shut down its coreboard machine in Varkaus in Finland, with an annual capacity of 100 000 tonnes, due to persistent profitability problems. In the first quarter Corenso finished converting a former paper machine to manufacture coreboard at Wisconsin Rapids, USA, which included the permanent closure of its smaller coreboard machine. At the end of 2008 Corenso started to operate in Eastern Europe with its new core plant at Tychy in Poland.

Prices for cores and coreboard were stable throughout the year, although demand declined somewhat towards the end of the year. This reduced demand was in part due to a number of paper and board capacity closures. Demand was strong for laminating paper products and prices were increased due to the higher costs.

Investing in cost efficiency and growth, trimming declines. To prepare for stiffer competition, we have improved our cost efficiency through profit improvement measures and numerous investment projects. These steps also demonstrate our willingness to overcome challenging circumstances with flexibility and innovation. We have built new plants and invested in existing facilities, creating exciting opportunities for growth and providing further capacity to respond to growing global demand, particularly in the fast-growing packaging markets of Central and Eastern Europe, where the long-term growth in demand is forecast to exceed 5% per annum. Nevertheless, the global economic slowdown caused us to miss our growth target for 2008.

In the first quarter we started commercial deliveries from our new corrugated packaging plant at Lukhovitsy in Russia, which will primarily serve the food and beverage, cigarette and electronics industries. In the first quarter we also opened a new heavy-duty corrugated box production line at Łódź in Poland, enabling us to enter the heavy-duty and large-sized packaging segments in Poland. In the second quarter we started production at our offset-printed microflute corrugated packaging plant at Eszteróvár in

Stora Enso is firmly committed to reducing the environmental impact of its mills through a range of sustainability measures, such as increased energy efficiency and reduced emissions to air. In the fourth quarter we began work on a new multiple fuel power plant at Ostrołęka Mill in Poland to help meet the mill's long-term energy needs. This new multiple fuel plant will improve the mill's cost competitiveness, energy self-sufficiency and energy efficiency, and reduce its carbon dioxide emissions. We also aim to increase the mill's use of biofuels, subject to their availability. We expect to complete the power plant in 2010.

In 2008 we also outsourced maintenance at our Kotka Laminating Paper Mill in Finland, and made with other productivity improvement measures to enhance its competitiveness.

⑥ WOOD PRODUCTS

Stora Enso Wood Products – or Stora Enso Timber as we are known in the marketplace – provides product and service solutions to wood product industries and trade customers worldwide. We focus on the construction, joinery and packaging industries and provide engineered fit-to-use products for manufacturing processes. We also supply a wide range of sawn and processed wood products to timber retailers, merchants and importer-distributors, and provide raw materials to the pulp and panel industries and the energy sector. We are fully committed to high performance standards in both the quality of our products and our service to customers.

We make sawn and further processed products from European softwoods, pine and spruce. In response to the changing use of wood for construction and joinery, we are increasing our share of value-added products such as glue-laminated beams and posts, components and building elements. Today we are a leader in many market segments, including glue laminated products in Japan and joinery components in the Nordic Countries.

Europe and Asia are our largest markets, which we supply from saw mills in Austria, the Czech Republic, Estonia, Finland, Germany, Latvia, Lithuania, the Netherlands, Poland, Russia and Sweden. We operate our own wholesale distribution under the brand Puumerkki in Finland and the Baltic Countries.

Raw material supply remains a key competitive driver for the sawmill industry. Our sawmills work in close co-operation with Stora Enso's

wood supply operations. Sawmills also play an important role in the supply of raw material to the pulp, paper and board industries, both through supporting pulpwood procurement and producing chips and sawdust.

A growing share of construction

Wood is gaining market share as a construction material because it is cost-competitive, renewable and suitable for a wide range of applications, and offers an increasing array of advanced new products. Wood has considerable long-term growth potential in the construction industry for both new build and renovation applications, and at Stora Enso Timber we are fully focused on making the most of these exciting new opportunities. Wood products enable Stora Enso to create new revenue streams, as well as continue to build a sustainable business.

Stora Enso Timber's scale and geographical spread gives us supply capabilities that are unmatched in our industry. We provide a wide-ranging product portfolio, manufactured throughout Northern and Central Europe, for many different wood product customers. We are determined to maintain our high level of service to our customers, even in today's challenging operating conditions.

Building a more sustainable world

Climate change brings new game rules. We firmly believe that our industry's sustainable business model will become a major competitive advantage over other materials.

The carbon footprint of a building – the amount of harmful carbon dioxide it releases into the atmosphere during its construction and lifetime – can be reduced significantly by using wood. Wood products from sustainably harvested forests have a negative carbon footprint, meaning that they remove more carbon from the atmosphere than they produce. In addition, sawing residues from wood can be used to produce bioenergy, a sustainable non-fossil energy source.

By contrast, extracting the raw materials for plastics, metals and concrete – and manufacturing these materials – requires a large quantity of fossil fuel energy.

Innovating to lead in construction

Our business focus is on new house building. Increasing performance standards for all building materials and ever-growing time and cost pressures, favour prefabricated building components

and elements. To address these changing needs, we offer a wide range of value-added products, from stress-graded, finger-jointed and glued structural products to more advanced building solutions like Cross Laminated Timber for wall and roof elements, and highly-adapted joinery components for industrialised window and door manufacturing processes.

Our product innovations and new value-added solutions move us ahead in the construction value chain, helping us to manage volatility better. This is a key requirement for profitability in our business, since construction industry is volatile by nature.

To optimise the performance of wood in our products, we select the raw material based on the requirements of each end-use. Increasingly we use innovations such as advanced scanning technologies to ensure the quality of both raw material and finished products.

Benefits from bioenergy

The by-products of wood processing – bark, sawdust, planer shavings and wood chips – can be used to make bioenergy. This is good business for us, as well as business that's good for the planet.

We are a major producer and user of bioenergy by turning the bark from logs into heat for drying kilns in our sawmills. We plan to turn greater quantities of sawdust and shavings into pellets, which can be used to heat everything from small homes to major power plants. European pellet demand is forecast to grow rapidly over the next decade, with double-digit annual growth rates.

Our total pellet capacity will reach 150 000 tonnes in 2009, and we plan significant further expansion in the next few years. We have also developed and started using our own direct sales channel and tools for selling pellets in Sweden, the biggest such market in Europe. These actions are just some of the many ways in which Stora Enso is helping to meet the growing bioenergy need through renewable resources, creating value for the environment and our business.

Capitalising on global building and renovation

We remain positive about the outlook for wood as a construction material; it has solid long-term global prospects, although the short-term prospects are challenging. Demographics will drive a high level of new building activity in the USA, China, Eastern Europe, Middle East and North Africa. On the other hand, Western Europe and Japan will focus more on renovation. These are all compelling opportunities for us, and with our capabilities in wood products we are well positioned to capitalise.

Responding decisively to challenging conditions

In 2008 we completed a major investment programme against a backdrop of exceptionally difficult market conditions, building a more competitive and market-focused business.

We opened a new joinery component mill at Uimaharju Sawmill in Finland, and expanded our component mills at Ala in Sweden and Honkalahti in Finland. We launched a new advanced interior construction product in Finland branded Etlex. We also started up a new building element mill at Bad St. Leonhard in Austria, producing massive wooden elements, called Cross Laminated Timber (CLT), for the construction market in Central Europe. In addition, we established three pellet mills, one each at Gruvön Sawmill in Sweden and Impiahti and Nabolchi sawmills in Russia. We also refitted both Russian sawmills with upgraded production lines, kilning capacity and boilers.

We firmly believe that these innovations and investments will make us a more effective business in a challenging market. Our target now is to ensure that these facilities start up successfully and provide a healthy return on our investments.

Our business did not meet its profitability targets for 2008 due to the weakening market situation and high raw material costs. The rapid economic downturn and global financial crisis impacted

negatively on construction activity, causing demand and prices for our products to weaken heavily during the year. Profitability remains a challenge throughout the industry, but is especially difficult in Finland where consistently high raw material costs are an additional burden. Russian wood export duties made the situation in Finland even more challenging.

The industry curtailed production, although this has been insufficient, leading to continued oversupply and heavy pressure on sales prices. The weak business outlook prompted us to make heavy production curtailments in 2008 to improve our profitability. In addition, during the last quarter we shut down one sawmill and one component mill in Estonia. We also announced plans to temporarily close two sawmills in Finland for 2009, and take further production cuts at several mills in Finland, the Baltic States, Austria, the Czech Republic and Sweden. These measures will reduce total production by about 1.3 million cubic metres annually.

Improving our profitability through resolve and fresh thinking

Our primary target in 2009 is to improve profitability in a difficult business environment and to follow through on the tough decisions we announced at the end of 2008.

In the short term we will adjust to prevailing market conditions. In the longer term, we remain buoyed by the potential of wood as a construction material and source of bioenergy, and will continue our strategic assessment of our products and markets to define the most profitable long-term business portfolio for the company. We are also limiting our exposure to the least competitive raw material regions, restructuring our asset portfolio as required.

UPM-Kymmene

- CEO Letter
- Excerpts from the 2008 annual report

Review by the president



Dear Reader,

The year 2008 was characterised by the rapid slowdown in the economy and high wood costs. Sales decreased across all of our businesses and profitability declined significantly from the level of 2007. The final quarter was weak, even though operating profit for the whole year was € 513 million, excluding special items.

Earnings per share, excluding special items, amounted to € 0.42 for 2008, compared with € 1.00 per share in the previous year. The Board proposes that according to UPM's new dividend policy based on cash flow, the dividend payment to be € 0.40 per share.

During the last four years, we have reduced costs significantly and are now better prepared to respond to the weakened economy and changing structures.

In the past year, UPM continued efforts to adapt to a business environment of slow growth and rising costs. Except for wood and energy prices, the company was able to reduce other variable and fixed costs significantly – an achievement for which all UPM employees deserve thanks.

In September 2008, we decided to reorganise our business structure and close our least competitive paper and pulp capacity in Finland as well as to streamline operations in all business groups, units and functions.

The Kajaani paper mill and the Tervasaari pulp mill were closed permanently by the end of 2008. We also published plans to close several self-adhesive labelstock production lines and reduce cutting capacity in Europe in 2009–2010. In the plywood and timber businesses, the decline in demand led to layoffs as well as the closures of the Luumäki further processing plant and the Lefvönmäki sawmill.

Our proactive moves to close down paper capacity improved cost competitiveness and customer mix of our paper business. We were also able to raise paper prices slightly during the year.

Moreover, the company's long-term financial targets and dividend policy were renewed. We want to secure sufficient financial flexibility by emphasising the importance of good balance sheet and especially cash flow. The new dividend policy aims to provide, in addition to a stable dividend, cash for repayment and growth investments.

According to our new vision, we want to become the front-runner in the new forest industry. The new forest industry refers to a business environment in which companies must find completely new ways to exploit biomass opportunities even better than before, as well as create added value and cost benefits for their customers. It also means a new competitive environment in which cost leadership, readiness to change and innova-

tion are the preconditions for success.

The new business structure implemented in December is a clear sign of our readiness to change and our new direction. We now operate in three Business Groups instead of five divisions.

In the future, energy and pulp will not only serve our paper industry, but they will be developed into independent market-driven businesses.

Combining the three former paper divisions into one Business Group enables faster decision-making and more streamlined operations. In the paper business, UPM has a unique opportunity to strengthen its cost leadership by optimising resources, production and investments.

With the help of engineered materials, UPM plans to increase the importance of rapidly growing and high value-adding businesses to the company.

We believe that the new structure offers good opportunities to draw on the company's competitive advantages, and I am confident that these changes will have a far-reaching impact on UPM.

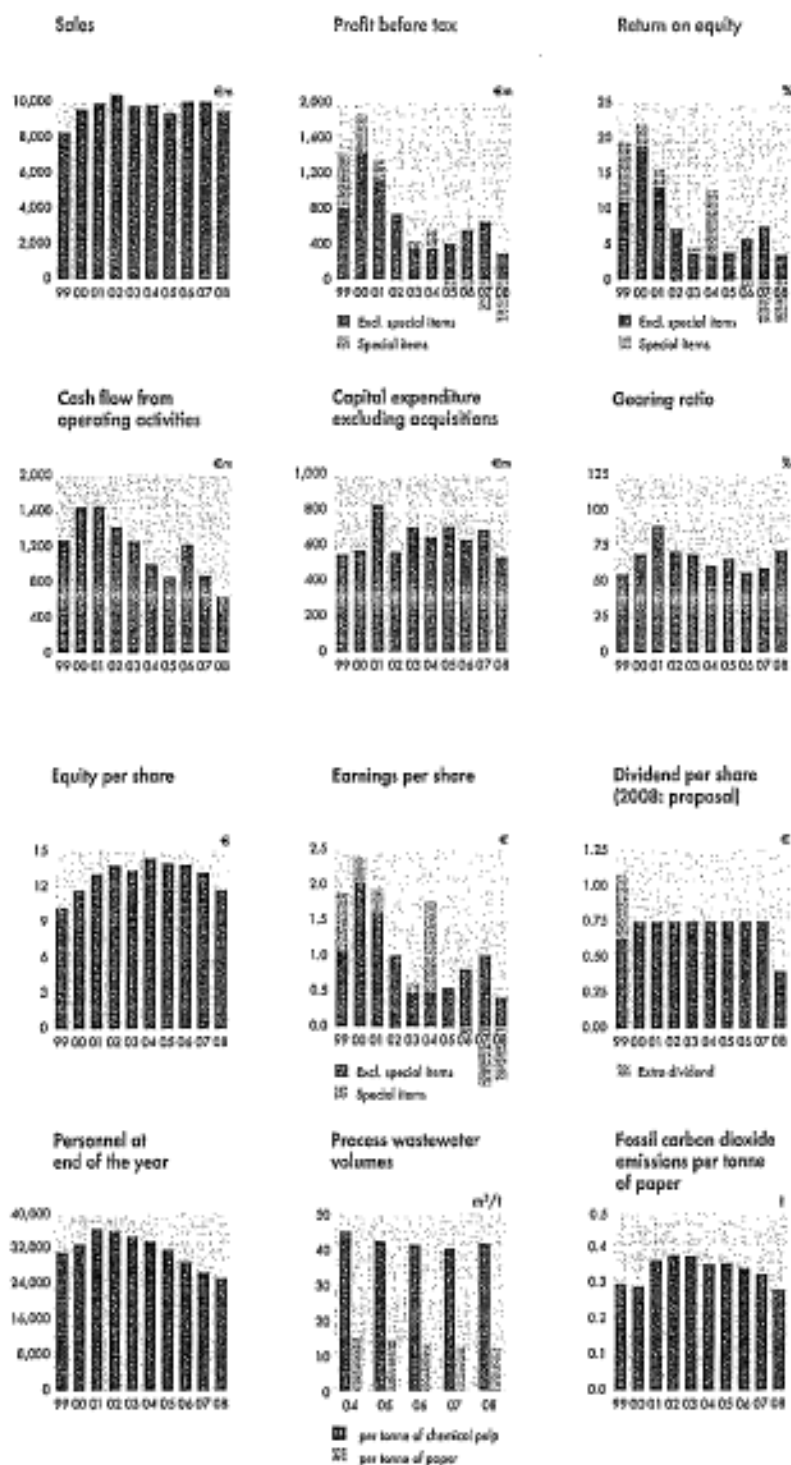
In 2009, the operating environment will be difficult. It is crucial to ensure the implementation of our streamlined, flexible way of working, so that we maintain a high level of customer service but at the same time save costs. In this way, we can step up our operations quickly when the business begins to take a turn for the better.



Jussi Pesonen
President & CEO

Key financial information 1999–2008

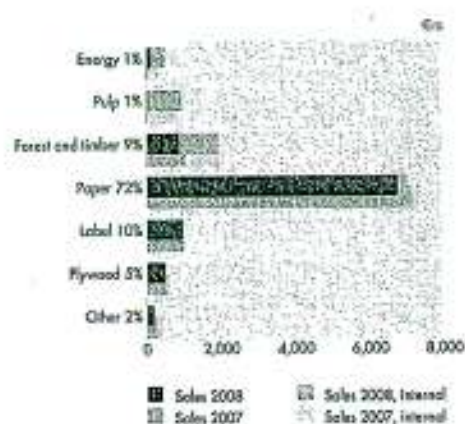
FIGURES FOR 2002–2008 ARE REPORTED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS), WHILE FIGURES FOR PREVIOUS YEARS ARE BASED ON FINNISH ACCOUNTING STANDARDS (FAS).



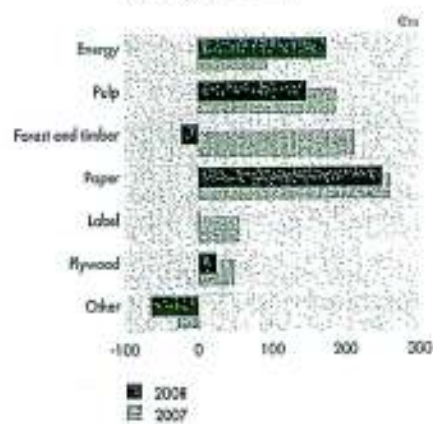
The year in brief

THE YEAR WAS CHARACTERISED BY THE RAPID SLOWDOWN IN THE ECONOMY AND HIGH WOOD COSTS. UPM CONTINUED EFFORTS TO ADAPT TO A BUSINESS ENVIRONMENT OF SLOW GROWTH AND RISING COSTS.

	2008	2007
Sales, €m	9,461	10,035
Operating profit, €m	24	483
incl. special items, €m	513	835
Profit (loss) before tax, €m	-201	292
Earnings per share, €	-0.35	0.16
incl. special items, €	0.42	1.00
Cash flow from operating activities per share, €	1.21	1.66
Return on equity, %	neg.	1.2
Dividend per share (2008: Board's proposal), €	0.40	0.75
Shareholders' equity per share at end of period, €	11.74	13.21
Gearing ratio at end of period, %	71	59
Capital expenditure and acquisitions, €m	551	708

Sales by business area¹⁾

Operating profit by business area (excluding special items)



Costs, excluding depreciation

%	2008	2007
Personnel expenses	17	17
Logs and pulpwood	17	17
Delivery of own products	10	12
Fillers, coating and chemicals	13	14
Energy	11	10
Recovered paper	4	4
Other raw materials	13	11
Other costs	15	15
Total	100	100

Costs totalled €8.4 billion in 2008 (2007: €8.7 billion).

Industry information

- Development of input prices



**Borrowed from UPM's market day presentation march 2009*



**Borrowed from UPM's market day presentation march 2009*