

Responsibility & Performance

Opportunities and Challenges in China

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Chinese Economic Outlook

(% unless otherwise indicated)

	2001	2002	2003E	2004E
Real GDP growth	7.5	8.0	7.0	7.7
Industrial production growth	13.8	13.5	10.2	9.8
Gross agricultural production growth	3.4	3.0	2.8	2.7
Unemployment rate (av)	9.3	9.0	10.1	10.1
Government balance (% of GDP)	-2.6	-2.9	-3.2	-3.0
Exports of goods fob (US\$ bn)	266.1	325.6	376.6	417.5
Imports of goods fob (US\$ bn)	232.1	281.2	347.7	393.8
Foreign Direct Investments, Mainland (US\$ bn)*	46.9	52.7	54.8	59.1

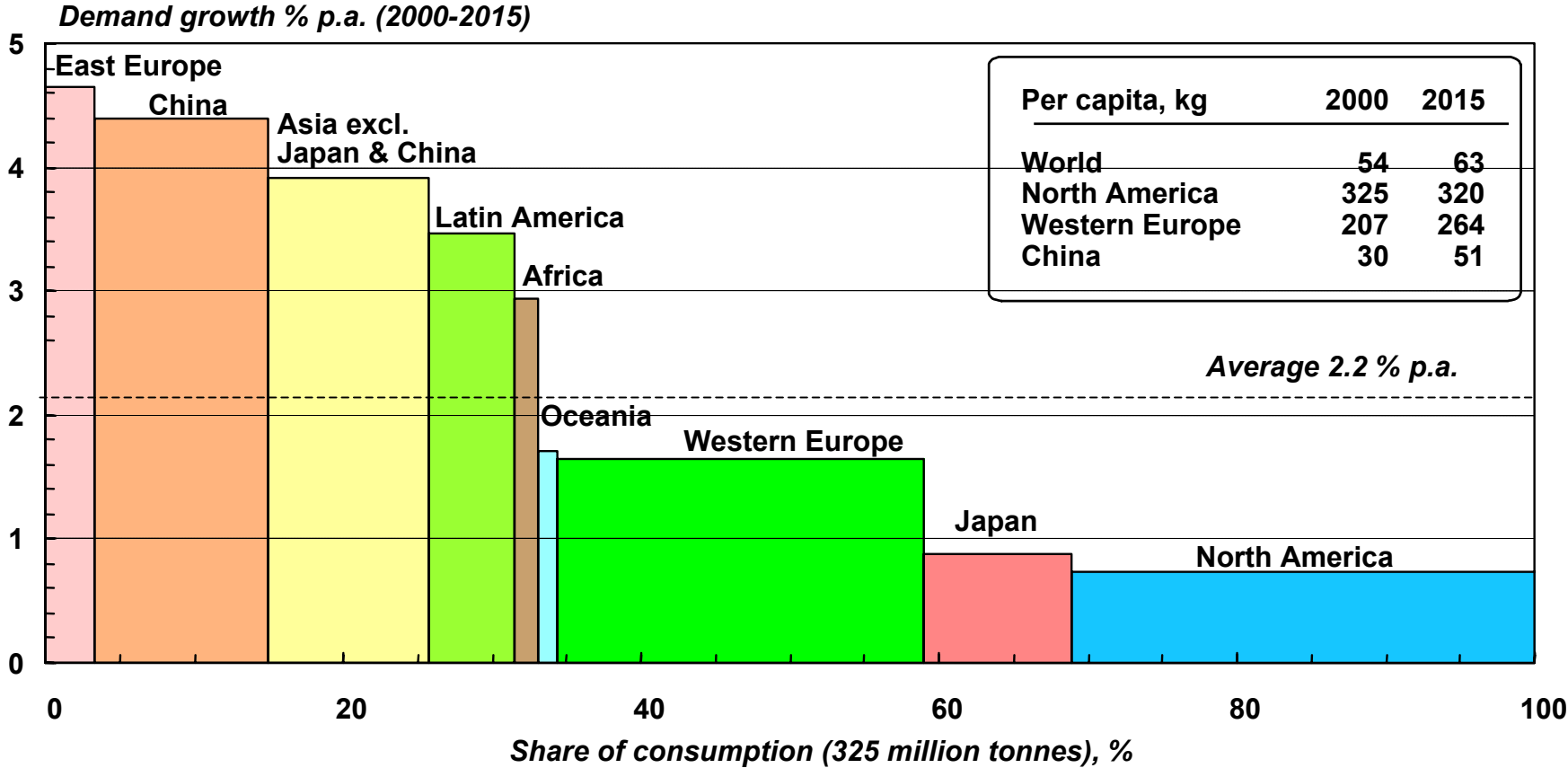
(c) Economist Intelligence Unit, May 2003,

*Consensus Forecast May 2003

Global Demand Growth for Paper and Board

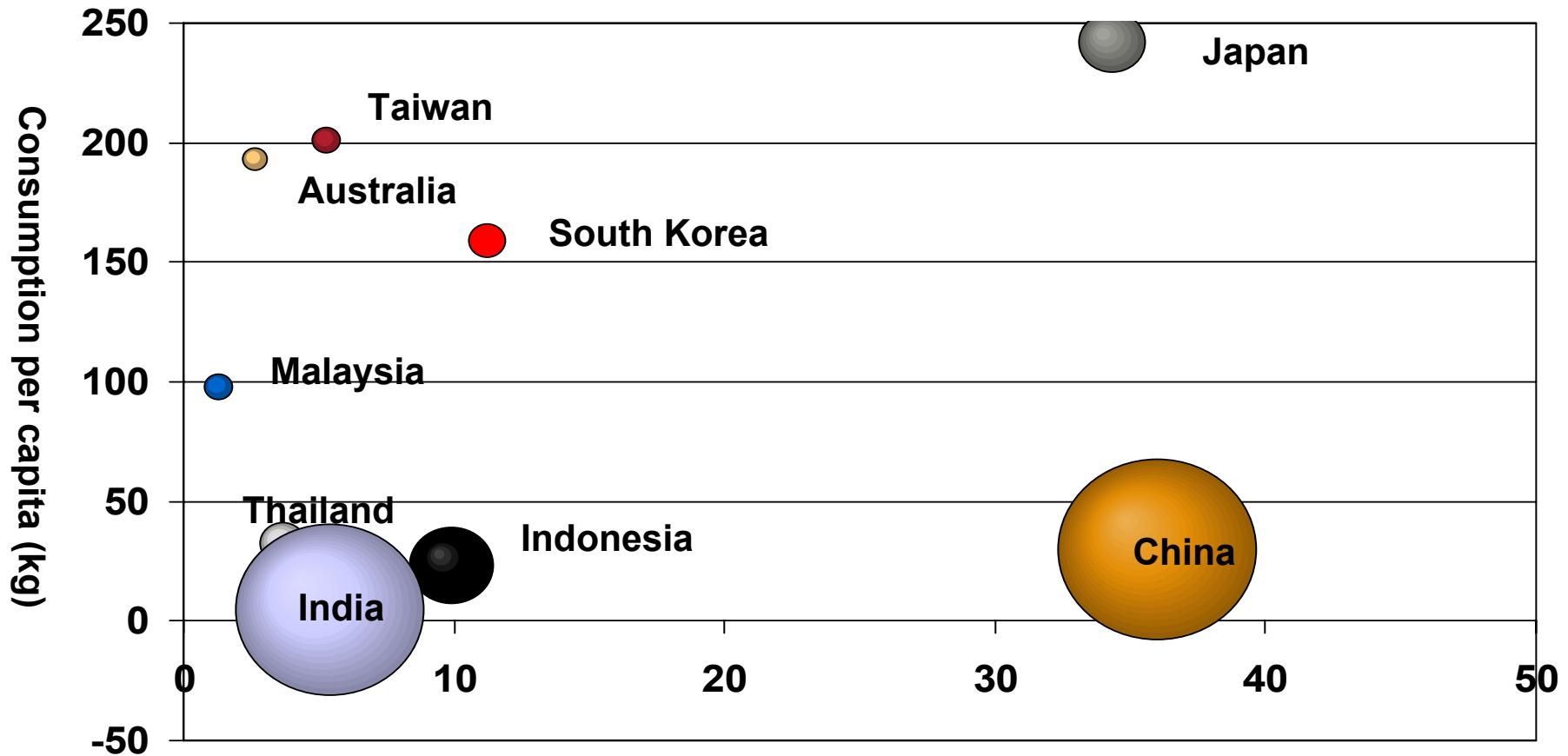


Chinese market drives future growth aspirations



Source: JP World Paper Demand 2015

Asia Pacific Paper & Board Capacity, Consumption per Capita and Population by Country



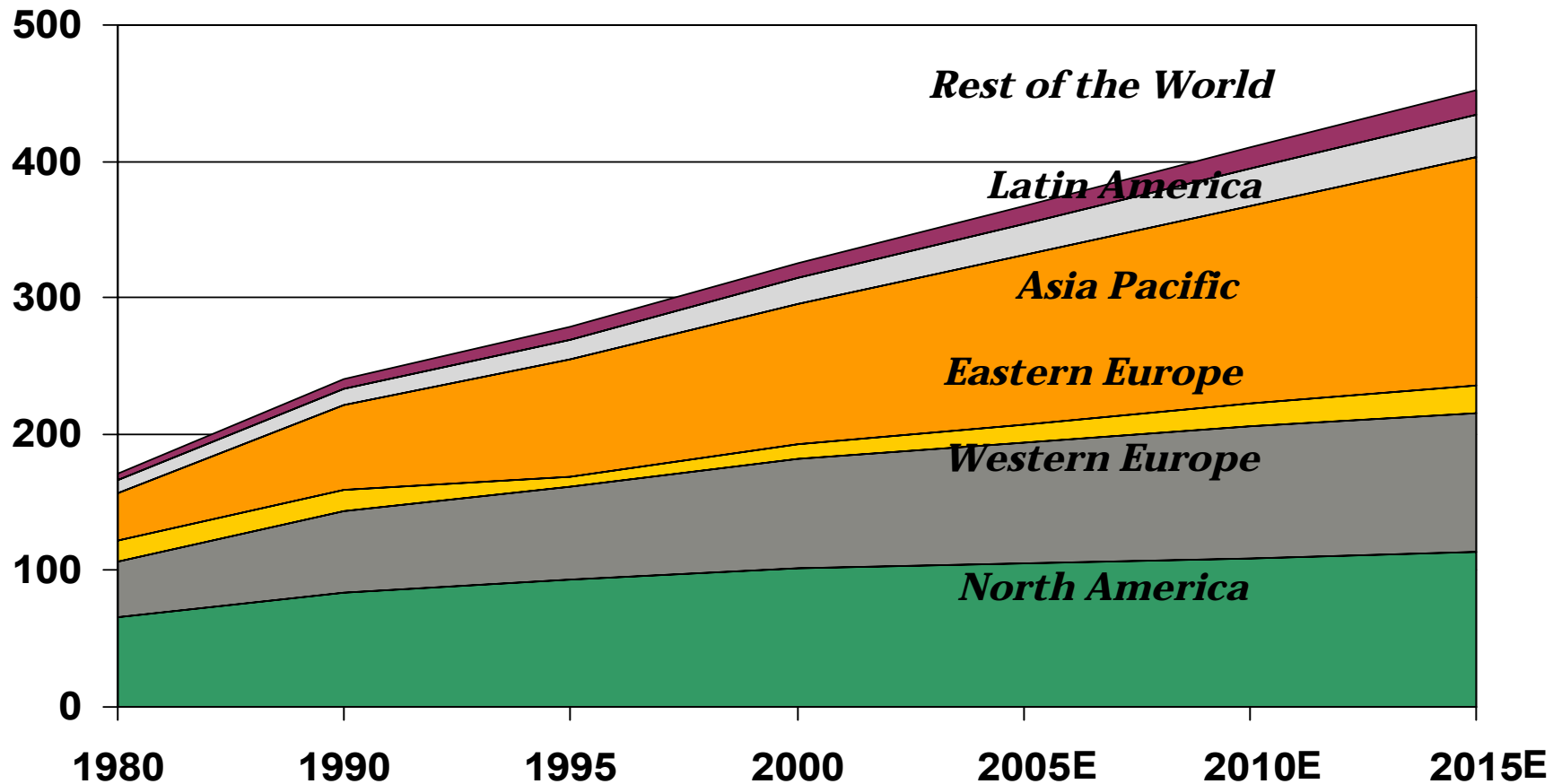
Paper and board capacity by country, in million tonnes
 Size of the bubble shows the relative size of the population

Source: PPI

Global Paper and Paperboard Demand by Region 1980-2015

Half of the global demand growth is expected to take place in Asia Pacific between 2000-2015

Million tonnes



Source: Jaakko Poyry 2002

What are the Opportunities China Offers for a Forest Products Company ?

- Large domestic consumer base
- Increasing consumer purchasing power
- Highest global paper & board demand growth
- China's role as a manufacturing and export printing centre
- World Trade Organisation (WTO) membership
- Continuing liberalisation of domestic industries
- Vast pool of highly educated and low cost workforce

Challenges in China

- Large country with different cultures
- Lack of infrastructure and industrial tradition in some regions
- Rather complicated application process for new investments
- Legislation
- Corruption
- Widening economic gap, urban vs. rural regions
- Rising unemployment
- Risk of economic slowdown
- Bureaucracy
- Competitors can have other than financial targets
- Competing end uses for local fibre resources
- Level playing field for all companies?

Chinese Forest Industry

- Large number of small mills
- Production of about 34.5 million tonnes including non-wood fibres
- Industry in need of further restructuring
- Environmental problems
- Trend towards higher quality products
- Local production replacing imports
- Protectionism (e.g. anti-dumping)
- New investments large scale and state-of-the-art design
- High dependence on imported fibre

Stora Enso in China

- Export started in the early '50s
- Local presence started in mid '80s with first sales company
- Total sales volume is circa 0.7 million tonnes (=USD 450 million);
7 sales offices
- Number of personnel: circa 800
- 160 000 tonnes of coated woodfree paper production in Suzhou
- Core production in Hangzhou
- Eucalyptus plantations in Guangxi Zhuang Autonomous Region
- Technology to nurseries in Yunnan, Guangdong and Heilongjiang

Stora Enso in China





STORAENSO

苏州紫兴纸业有限公司
Stora Enso Suzhou Paper Co., Ltd.

STORAENSO

Stora Enso Suzhou Paper

- Located 100 km west of Shanghai
- Capacity 160 000 tonnes per annum of multicoated woodfree papers
- China's third largest coated woodfree paper producer with 8 % domestic market share
- Clear quality leader in Chinese market
- Suzhou Mill gained approval in November 2002 to build 450 000 tonnes per annum additional coated woodfree capacity
- Stora Enso currently conducting a prefeasibility study regarding the possible investment

Stora Enso Suzhou Paper

PM 2 Prefeasibility Study

- Risk of woodfree paper oversupply in China in the medium term
- In-depth analyses about market potential needed before further steps
- Stora Enso currently analysing various options within broader Shanghai region
- No decision to proceed with the investment has been taken yet

Stora Enso Suzhou Paper

Experiences after Five Years of Operations

- Employees continuously eager to learn new ideas
- High overall education level (30% with University degrees)
- Low employee turnover rate (under 2% annually)
- Proud to be part of Stora Enso; in general, Nordic companies have a good reputation
- Employees competent and adapted to TQM – environment
- Smooth co-operation with local authorities

Stora Enso Fibre Supply in China



Stora Enso Fibre Supply in China

- Target to secure fibre supply in a sustainable way
- In November 2002 a MoU was signed with Guangxi Zhuang Autonomous Region to analyse the feasibility of industrial scale plantations and integrated pulp and paper/board
- Prefeasibility study will be ready during 2003 for further decision making
- Stora Enso also has co-operation with the Chinese Academy of Forestry in plantation research and development

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Visit www.storaenso.com for more information.