

Auditor's report

(Unofficial translation from the Finnish original)

To the Annual General Meeting of Stora Enso Oyj

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Stora Enso Oyj (business identity code 1039050-8) for the year ended 31 December, 2016. The financial statements comprise the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial performance and financial position in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance

with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Basis for opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of Biological Assets</p> <p>Refer to Note 1, Note 2 and Note 12</p> <p>The fair value of Group's Biological assets through subsidiaries, joint operations and associates amounts to EUR 3 386 million as of December 31, 2016.</p> <p>The value of Biological assets is measured at fair value less costs to sell. The fair value is determined using discounted cash flows based on sustainable forest management plans taking into account the growth potential of one cycle. The one cycle varies depending on the geographic location and species. These discounted cash flows requires estimates of growth, harvest, sales price and costs.</p> <p>Due to the level of judgment involved in the valuation of Biological Assets, complexity of the governance structure as well as the significance of biological assets to the Group's financial position, this is considered to be a key audit matter.</p>	<p>As part of our audit procedures, we have gained understanding over the management review and monitoring controls for interpretation of group policy and IAS 41 standard.</p> <p>We have tested management's controls and effectiveness of systems in place for the existence and valuation of Biological assets directly owned by the subsidiary companies.</p> <p>We have assessed the key assumptions contained within the fair value calculations including sales price assumptions, growth assumptions and discount rates. We have used Deloitte specialists where applicable.</p> <p>We have performed analytic review of the results of the IAS 41 valuations to highlight outliers which warrant further procedures.</p> <p>We have assessed and tested the controls and procedures around management's recording of Joint Operations results, including impact of Biological assets valuation.</p> <p>As part of our audit procedures, we have assessed and tested the controls and procedures around management's recording of Forest associate results including impact of Biological assets valuation, as this has direct impact to Group's Equity accounted investments Balance Sheet line item.</p> <p>As part of our audit procedures, we have communicated with the auditors of the four largest associates and Joint Operations. As part of the communication, among other things we have gone through the key audit procedures performed.</p> <p>We have assessed the appropriateness of presentation in the consolidated financial statements.</p>

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of property, plant and equipment, goodwill and other intangible assets</p> <p>Refer to Note 2, Note 10 and Note 11</p> <p>As at 31 December 2016, the Group has Goodwill of EUR 238 million, which is assessed at least annually for impairment, and EUR 5 791 million property, plant and equipment and other intangible assets, which are assessed for impairment where possible impairment indicators are identified.</p> <p>In 2016 the Group recorded an impairment of EUR 92 million for property, plant and equipment and other intangible assets. Impairment related mainly to Newsprint Europe Cash generating unit in Paper Division, for which an impairment of EUR 78 million was recorded due to further weakened long-term earnings expectations resulting from decline in the European Paper markets. In addition, the Group recorded EUR 11 million impairment of Goodwill, which was fully relating to Corrugated China operations in Packaging Solutions Division.</p> <p>As at 31 December 2016, the value of Stora Enso Oyj's subsidiary shares amounted to EUR 6 179 million in the parent company's financial statements prepared in accordance with the Finnish Gaap. Under Finnish Gaap, an impairment is recorded when it is considered to be substantial and permanent. In 2016 impairment of subsidiary shares amounted to EUR 58 million.</p> <p>The assessment of the recoverable amount requires significant judgment, in particular relating to estimated cash flow projections and discount rates.</p> <p>Due to the level of judgment, market environment and significance to the Group's financial position, this is considered to be a key audit matter.</p> <p>The Group has significant investment projects with Property, plant and equipment, and other intangible assets additions of EUR 638 million during the year ended 31 December 2016.</p> <p>The significant level of additions requires consideration of the nature of costs incurred to ensure that capitalization of property, plant and equipment, and intangible assets meets the recognition criteria of IAS 16 and IAS 38, and the application of the judgment assigning appropriate useful economic lives. Thus, this is considered to be a key audit matter.</p>	<p>As part of our audit procedures we have evaluated the robustness of budgeting process, which is basis for the valuations.</p> <p>We have tested the controls and review procedures around identification of impairment indicators.</p> <p>We have critically evaluated management's methodologies in preparing impairment models and documented basis for key assumptions.</p> <p>We performed procedures on those Cash Generating Units where management has identified impairment indicators; or where the recoverable amount is close to carrying value.</p> <p>As part of our audit procedures we assessed the assumptions contained within the calculations including growth assumptions, discount rates and implications of industry changes. In addition, we have analysed earlier estimates against actual business development. We have used Deloitte specialists where applicable.</p> <p>We have reviewed the appropriateness of the controls relating to the significant investment projects, such as the controls over accounting being in line with IFRS and group policy.</p> <p>As part of our audit procedures we assessed the validity of amounts capitalised and assumptions relating to depreciations.</p>

Key audit matter	How our audit addressed the key audit matter
<p>Provisions and contingent liabilities</p> <p>Refer to Note 2, Note 22 and Note 29</p> <p>As of 31 December 2016 the Group had environmental, restructuring and other provisions totalling EUR 134 million.</p> <p>In addition the Group has disclosed significant open legal cases and other contingent liabilities in Note 29.</p> <p>The assessment of the existence of the present legal or constructive obligation, analysis of the probability of the related payment and analysis of a reliable estimate, requires management's judgement to ensure appropriate accounting or disclosures.</p> <p>Due to the level of judgement relating to recognition, valuation and presentation of provisions and contingent liabilities, this is considered to be a key audit matter.</p>	<p>As part of our audit procedures we have assessed management's processes to identify new possible obligations and changes in existing obligations for compliance with group policy and IAS 37 requirements.</p> <p>We have analysed significant changes from prior periods and obtain a detailed understanding of these items and assumptions applied.</p> <p>We have obtained legal representation letters on the main outstanding legal cases.</p> <p>As part of our audit procedures we have reviewed minutes of board meetings (including the sub-committees).</p> <p>We have held regular meetings with management and legal counsels.</p> <p>We have assessed the appropriateness of presentation in the consolidated financial statements.</p>

Responsibilities of the Board of Directors and the Chief Executive Officer for the financial statements

The Board of Directors and the Chief Executive Officer are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Chief Executive Officer are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Chief Executive Officer are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's responsibilities in the audit of financial statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Chief Executive Officer's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However,

future events or conditions may cause the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Other information

The Board of Directors and the Chief Executive Officer are responsible for the other information. The other information comprises information included in the report of the Board of Directors and in the Annual Report, but does not include the financial statements and our report thereon. We obtained the report of the Board of Directors prior to the date of the auditor's report, and the Annual Report is expected to be made available to us after the date of the auditor's report.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, we conclude that there is a material misstatement in the information included in the report of the Board of Directors, we are required to report this fact. We have nothing to report in this regard.

Other opinions

We support that the financial statements should be adopted. The proposal by the Board of Directors regarding the treatment of

distributable funds is in compliance with the Limited Liability Companies Act. We support that the Board of Directors of the parent company and the Chief Executive Officer should be discharged from liability for the financial period audited by us.

Helsinki, 3 February 2017

Deloitte & Touche Oy

Audit Firm

Jukka Vattulainen
Authorised Public Accountant (KHT)