



Annual Report 2003



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Annual Report 2003



Sunila Oy

Report of the Board of Directors



Pulp market

Market pulp production in the Nordic countries and North America (Norscan) totalled 22.4 million tonnes. Production grew from the previous year by 0.6 million tonnes. The operating rate was high, 93 per cent (previous year 91 per cent). Market pulp production in Finland amounted to 2.5 million tonnes (2.2 million tonnes). Market pulp operating rate rose to 95 per cent from 83 per cent in the previous year.

At the beginning of the year the Norscan pulp stocks were 1.6 million tonnes. During the first quarter the stocks fell to less than 1.5 million tonnes, but have since settled to a higher level than at the beginning of the year. By the end of the year the stocks were 1.8 million tonnes, which corresponded to 28 days of production. Market pulp stocks in Finland were 145 000 tonnes (128 000 tonnes) at the end of the year. The stocks in Finland corresponded to 20 days of production.

For most of the year the pulp stocks have been too high. The driving force in price increases has been the severe cost pressure on the pulp producers rather than the market situation. Pulp price rose during the year from USD 440 to USD 560. The weakening of the U.S. dollar against the euro has eroded most of the price increase in euros.

Operation and Result

Sunila Oy's turnover was EUR 140 million (EUR 127 million). Operating profit was EUR 1.2 million (EUR 1.8 million) and profit/loss before extraordinary items EUR -2.6 million (EUR -0.1 million).

Pulp production totalled 330 588 tonnes (301 840 tonnes). This is a new annual production record and the previous record from 1995 was exceeded by 11 000 tonnes. The operating rate was 94 per cent (86 per cent). In addition to the production stops determined by the labour agreement there was no production on 10 days (42 days). Production ran smoothly in spite of occasional failures in cooking plant machinery and

drying machine press, in which almost 11 000 tonnes of production was lost. In addition to that, almost 2 000 tonnes of production was lost in December during a strike, which affected the whole paper industry.

Pulp sales were 335 380 tonnes (286 861 tonnes) meaning 96 per cent (82 per cent) of the available capacity. The average sales price of pulp was EUR 378 (EUR 421). Sales to the shareholding companies amounted to 285 693 tonnes showing an increase of 17 475 tonnes compared to 2002. Market pulp sales grew to 49 687 tonnes (18 642 tonnes). Export sales grew significantly to 140 734 tonnes (82 499 tonnes). Pulp stock at the end of the year went down to 24 887 tonnes (29 681 tonnes), which corresponds to 25 days of production.

Investments

The investments totalled EUR 11.7 million (EUR 12.1 million).

The chip silo investment, which stabilises the pulp quality, was completed. The two first silos were ready at the beginning of the year and the latter two were taken into use in the autumn.

The problems with slushing of the pulp bales were eliminated after a smoothening press was installed on the other drying machine.

Electricity distribution reliability and safety were improved by renewing the 6 kV main switch.

Personnel and Management

The quality, environmental and safety systems were combined into a single operating system during the year. A certificate based on the ISO 9001:2000 process model was granted to Sunila Oy on 14 November 2003. The reorganisation, which was implemented at the beginning of the year, supports the core processes based on the function process model.



The number of persons employed on a permanent basis was 293 (300) at the end of the year, the average for the year being 321 (316). The personnel's absences caused by illness or accidents are still at a high level of 9.2 per cent (10.2 per cent). The main reason for long absences was rheumatic and locomotory organ diseases.

Arranging training to 170 employees in work safety continued the "Zero Accident" programme. Similar training was also arranged to a large number of the partnership companies' employees. The number of accidents among Sunila's own personnel decreased to 28 (34).

Training sessions on company values were attended by almost half (145) of the employees.

Corporate Social Responsibility

An Open Doors day was organised in September. During the day 800 people visited Sunila Oy to learn about its operations.

Environmental expenses totalled EUR 7.1 million. Environmental protection investments were EUR 0.4 million. The number of environmental inquiries decreased to almost half compared with the previous year.

An operation permit, which complies with the new environmental legislation, is to be applied by the end of 2004. Preparatory work for this was started in the autumn.

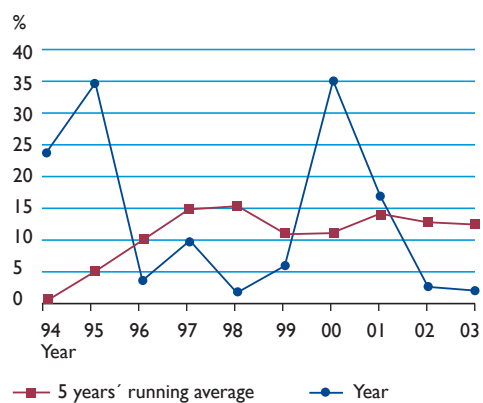
Research and Development

In research work focus was on improved pulp quality with the cooking process as the main target.

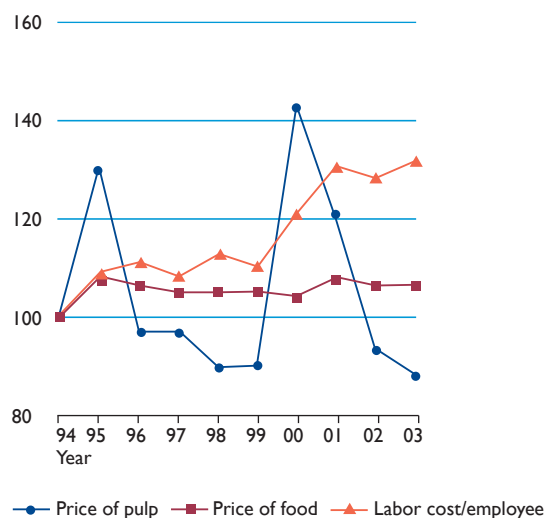
Outlook for the Year 2004

The softwood pulp market situation is reasonably stable at the beginning of the year and the pulp price is rising. Sunila Oy's planned production for 2004 is 348 000 tonnes. In spite of full-capacity production, the financial result depends on the trend in the USD/EUR exchange rate.

Return on capital employed (ROCE)



Indices



Organisation | January 2004

Board of Directors

Directors, members		Deputy members
Sverre Norrgård	Chairman	Heikki Rätty
Jarmo Alm	Deputy Chairman	Jukka Heiko
Markku Halonen		Jorma Kangas
Erkki Varis		Tapio Ahola

Management Group

Juhani Kautto	Managing Director
Ari Haakana	Business Development Manager
Markku Hynninen	Workers' Representative
Mikko Karppelin	Administration Manager
Seppo Liimatainen	Salaried Employees' Representative
Petri Lundén	Mill Services Manager
Juha Piipponen	Development Manager
Jarmo Rinne	Production Director
Tea Sundén	Customer Service Manager

Auditor

Ari Ahti, Authorised Public Accountant (KHT)

Board Committees

Chairman	
Marketing Committee	Hilkka Riihimäki
Forestry Committee	Dan Forsberg
Finance Committee	Veli-Matti Tahvanainen

Shareholders

Myllykoski Paper Oy	50 %
Stora Enso Oyj	50 %

Profit and Loss Account and Balance Sheet

EUR million	PARENT COMPANY		GROUP	
	2003	2002	2003	2002
PROFIT AND LOSS ACCOUNT				
Turnover	139.55	127.49	140.02	128.25
Change in inventory of finished goods	-1.29	4.76	-1.29	4.76
Share in the profit of affiliated companies			0.00	0.00
Other income	1.08	1.71	1.08	1.71
Materials and supplies	-96.05	-91.41	-96.08	-91.45
Personnel cost	-15.26	-14.63	-15.45	-14.82
Depreciation	-12.29	-10.32	-16.42	-14.45
Other operating expenditure	-14.56	-15.78	-9.42	-10.58
= Operating profit	1.18	1.83	2.44	3.42
- Financial income and expenditure	-3.74	-1.93	-5.01	-3.53
= Profit before extraordinary items	-2.56	-0.10	-2.57	-0.10
Extraordinary items				
Direct taxes	0.74	0.03	0.74	0.03
PROFIT/LOSS FOR THE YEAR	-1.82	-0.07	-1.83	-0.07
BALANCE SHEET				
	2003	2002	2003	2002
Material goods	126.61	127.21	164.13	170.05
Investments	0.88	0.92	0.59	0.59
Inventories	18.57	20.80	18.57	20.80
Receivables, long-term	3.64	4.45	3.64	4.45
Receivables, short-term	20.60	16.15	20.40	15.67
Cash in hand and in bank	2.51	4.52	2.53	4.53
	172.81	174.06	209.85	216.09
Shareholders' equity, restricted	13.00	13.00	13.00	13.00
Shareholders' equity, unrestricted	50.60	52.41	75.65	77.47
Affiliated companies			0.00	0.00
Minority interest			0.01	0.01
Accrued provisions	35.61	35.61		
Liabilities, long-term	29.20	34.86	72.50	83.20
Liabilities, short-term	44.40	38.17	48.70	42.43
	172.81	174.06	209.85	216.09

Statement of Changes in the Financial Position

EUR million	PARENT COMPANY		GROUP	
	2003	2002	2003	2002
OPERATION				
Turnover	135.52	135.08	136.55	135.26
- Operating expenditure, net	-117.55	-122.01	-118.50	-121.49
- Financial expenditure, net	-5.04	-2.09	-5.04	-3.68
- Taxes	-0.02	0.55	0.00	0.55
- Other income and expenditure				
Share in the profit of affiliated companies				
= Cash flow from the year's operation	12.91	11.54	13.01	10.64
INVESTMENTS				
- Investments, material	-10.51	-10.45	-10.51	-10.25
- Investments, shares	0.00	0.00	0.00	0.00
+ Sales of fixed assets		0.00	0.00	0.00
= Increase/decrease in capital after investments	2.41	1.09	2.50	0.39
FINANCING				
- Increase/+ decrease in other receivables		0.00	-0.02	0.00
+ Increase/- decrease in short-term liabilities	6.29	5.91	6.23	10.03
+ Increase/- decrease in long-term liabilities	-10.69	-2.41	-10.69	-5.55
Dividends and other profit distribution		-12.87		-12.87
+ Increase in share capital				
= Increase/decrease in liquid assets	-1.99	-8.01	-1.98	-8.01
Liquid assets 31 Dec.	2.53	4.52	2.55	4.53

Notes to the Financial Statements

Accounting Policies

The financial statements have been prepared in accordance with the Finnish Accounting Act and other standards and regulations governing financial statements. The consolidated financial statements include the parent company and those companies in which the parent company owns more than half of the voting shares plus those affiliated companies in which the parent company owns more than 20 %. Intercompany transactions, receivables and liabilities have been eliminated in consolidation. The company form of Sunivalli Oy was changed to Housing Co. Kotkan Sunivalli and it was transferred to Current Assets. At the end of the accounting period more than one third of the shares had been sold.

Fixed assets are stated in the balance sheet at cost less planned depreciation. Planned depreciation for vital machinery in 1998 has been defined on the basis of the estimated replacement year, with 10 to 25 years of estimated economic lives. The estimated economic lives of buildings range from 20 to 40 years and those of other machinery from 5 to 10 years. Tangible assets leased through financial leasing contracts are stated in the consolidated financial statements as fixed assets, and the obligations of these contracts as interest-bearing liabilities.

Inventories are stated at FIFO principle cost, including variable expenses resulting from purchase and manufacture as well as the related proportion of fixed expenses or at a lower, most probable sales price.

Receivables and liabilities in foreign currencies are stated at the average exchange rates at year-end.

Taxes included in the profit and loss account are stated as accounted.

Notes to the Profit and Loss Account

EUR million	2003	2002
1. Turnover by market area		
Finland	81.37	91.54
Other EU countries	36.18	25.29
Other parts of the world	22.00	10.66
Parent company	139.55	127.49
Subsidiaries	0.47	0.76
Group total	140.02	128.25
2. Other income		
Rental income	0.70	0.70
Sunivalli Oy, profit from sales	0.38	
	1.08	0.70
3. Materials and supplies		
Materials purchased	-84.74	-78.86
Change in inventory	-0.95	-0.04
External services purchased	-10.22	-11.84
Parent company	-95.90	-90.74
Subsidiaries	-0.03	-0.03
Group total	-95.93	-90.78
4. Personnel cost		
Management salaries and bonuses	-0.12	-0.12
Other salaries and wages	-11.61	-10.90
Pension cost	-2.38	-2.26
Other indirect personnel cost	-1.10	-1.31
Fringe benefits	-0.05	-0.04
Parent company	-15.26	-14.63
Subsidiaries	-0.19	-0.20
Group total	-15.45	-14.82
Average number of		
Salaried employees	82	81
Workers	239	235
Parent company	321	316
Subsidiaries	5	5
Group total	326	321

5. Planned depreciation		
Buildings	-1.37	-1.16
Machinery and equipment	-10.92	-9.16
Parent company	-12.29	-10.32
Subsidiaries and leasing	-4.13	-4.14
Group total	-16.42	-14.45
6. Financial income and expenditure		
Dividend income	0.07	0.07
Interest income	0.05	0.30
Net exchange rate difference	-2.04	-0.28
Interest expenditure	-1.81	-1.95
Other financial expenditure	-0.01	-0.07
Parent company	-3.74	-1.93
Subsidiaries and leasing	-1.26	-1.60
Group total	-5.01	-3.53
7. Extraordinary items and expenditure		
8. Change in accumulated depreciation difference		
9. Direct taxes on operations		
Change in deferred tax receivable	-0.02	-0.02
	0.76	0.05
Parent company	0.74	0.03
Change in deferred tax		
Group total	0.74	0.03

Notes to the Balance Sheet

EUR million

1. INTANGIBLE AND TANGIBLE ASSETS

Parent company

	Tangible assets			
	Land areas	Buildings and constructions	Machinery and equipment	In progress
Acquisition value 1 Jan.	1.27	42.12	224.27	8.96
Additions		3.96	7.71	0.27
Reclassifications		4.38	4.59	-8.96
Sales		-0.25		
Accumulated depreciation		-15.03	-134.39	
Depreciation for period		-1.37	-10.92	
Balance 31 Dec.	1.27	33.81	91.26	0.27
				126.61

Group

	Tangible assets			
	Land areas	Buildings and constructions	Machinery and equipment	In progress
Acquisition value 1 Jan.	1.44	44.06	362.37	8.96
Additions		3.70	7.71	0.27
Reclassifications		4.38	4.59	-8.96
Sales				
Accumulated depreciation		-16.96	-231.01	
Depreciation for period		-1.37	-15.05	
Balance 31 Dec.	1.44	33.81	128.61	0.27
				164.13

2. STOCK AND SHARES	% of capital	Number of shares	Nominal value	Book value
Subsidiaries:				
Karhulan-Sunilan Rautatie Oy, Kotka	100	300	0.051	0.254
Kiinteistö Oy Sunilan Kesäniemi, Kotka	77.8	4740	0.024	0.027
Participating interest companies:				
Sunilan Kantola Oy, Kotka	50	125	0.210	0.210
Sunilan Mittayhtiö Oy, Kotka	33.3	8	0.008	0.008
Sunilan Puhdistamo Oy, Kotka	33.3	8	0.294	0.294
Other shares:				
RP Kuljetustekniikka Oy, Kotka	8.1	20	0.003	0.003
Others			0.066	0.085
Total			0.656	0.883
Shares and stocks owned by subsidiaries			0.0003	

3. INVENTORIES	2003	2002	Change
Materials	8.73	9.67	-0.95
Finished products (Year 2002, 2003: sales price)	9.84	11.13	-1.29
	<u>18.57</u>	<u>20.80</u>	<u>-2.24</u>

4. RECEIVABLES	2003	2002	
Long-term			
Loans receivable from participating interest companies	3.63	3.63	4.44
Other loans receivable	0.01	0.01	0.01
	<u>3.64</u>	<u>3.64</u>	<u>4.45</u>
Short-term			
Loans receivable from participating interest companies	0.81	0.81	
Accrued income from participating interest companies	0.04	0.84	0.84
Accrued income from group companies		0.00	0.51
Other receivable	18.18	13.96	
Other	0.02		
Other accrued income	0.74	18.95	14.76
	<u>19.79</u>	<u>19.79</u>	<u>16.10</u>
Deferred tax receivable		0.81	0.05
Subsidiaries		-0.20	-0.51
Group total	<u>20.40</u>	<u>20.40</u>	<u>15.64</u>

5. CHANGES IN SHAREHOLDERS' EQUITY	Parent company		Group	
	2003	2002	2003	2002
Share capital 1 Jan.	13.00	13.00	13.00	13.00
Capitalisation issue				
Share capital 31 Dec.	13.00	13.00	13.00	13.00
Other reserve				
Retained earnings 1 Jan.	52.41	65.36	77.47	90.41
Paid dividend		-12.87		-12.87
Profit for the year	-1.82	-0.07	-1.83	-0.07
Retained earnings 31 Dec.	50.60	52.41	75.64	77.47
Shareholders' equity total 31 Dec.	63.60	65.41	88.64	90.47
Distributable funds				
Retained earnings 31 Dec.	50.60	52.41	75.64	77.47
Portion of accumulated depreciation difference transferred to shareholders' equity			-25.29	-25.29
Total	50.60	52.41	50.36	52.19

6. APPROPRIATIONS

Accumulated depreciation	35.61	35.61
Deferred tax liability	<u>10.33</u>	<u>10.33</u>

7. LONG-TERM LIABILITIES

	2004	2005	2006	2007	2008	2009 -
Repayment of loans	15.66	14.11	4.68	1.97	1.23	7.21
Repayment of leasing liabilities	4.27	4.43	6.20	1.61	1.67	19.06
Leasing liabilities total 31 Dec. 2003	37.24					

8. LIABILITIES

	2003		2002	
Long-term				
* Loans from financial institutions	22.25		26.81	
* Pension premium loans	6.36		7.45	
* Other liabilities	0.60	29.20	0.60	34.86
		<u>29.20</u>		<u>34.86</u>
* Leasing		32.97		37.24
* Deferred tax liability		10.33		
Group total		<u>72.50</u>		<u>72.10</u>
Short-term				
* Advances received from participating interest companies			0.70	
* Other liabilities to participating interest companies	5.27	5.27	5.92	6.62
* Other accounts payable	11.87		10.79	
* Loans from financial institutions	21.57		15.14	
* Pension premium loans	1.09		1.12	
* Other	0.79		0.96	
* Other accrued liabilities	3.81	39.13	3.54	31.55
		<u>44.40</u>		<u>38.17</u>
* Subsidiaries		0.04		0.14
* Leasing		4.27		4.12
Group total		<u>48.70</u>		<u>42.43</u>

9. CONTINGENT LIABILITIES

	Liabilities with mortgages given as security			
	Pension pre- mium loans	Loans from financial institu- tions	Other mort- gages	
Real estate mortgages	37.67	2.68	29.21	5.77
Business mortgages	10.76		10.76	
Free	41.35			
Total	<u>89.78</u>	<u>2.68</u>	<u>39.97</u>	<u>5.77</u>

10. OPEN DERIVATIVE CONTRACTS

None

Proposal of the Board of Directors

The Board of Directors proposes to the Annual Shareholders' Meeting that

the loss from the financial year	EUR	-1 817 923.11
and the profit from the previous years	EUR	52 413 965.08
be transferred to the profit and loss account		
whereafter the profit and loss account will contain a profit of	EUR	<u>50 596 041.97</u>
Consolidated unrestricted shareholders' equity is	EUR	50 359 021.71
Dividends will not be paid and balance carried forward.		

Helsinki, 10 February 2004

Sverre Norrgård
Chairman of the Board

Jarmo Alm

Erkki Varis

Markku Halonen

Juhani Kautto
Managing Director

Auditor's Report

To the Shareholders of Sunila Oy

I have audited the accounting records and the financial statements as well as administration by the Board of Directors and the Managing Director of Sunila Oy for the year ended on 31 December 2003. The financial statements, which include the report of the Board of Directors, consolidated and parent company income statements, balance sheets and notes to the financial statements, have been prepared by the Board of Directors and the Managing Director. Based on the audit, I express an opinion on these financial statements and the company's administration.

The audit has been conducted in accordance with the Finnish Generally Accepted Auditing Standards. Those standards require that the audit is performed to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. The purpose of the audit of the administration has been to examine that the Board of Directors and the Managing Director have complied with the rules of the Finnish Companies Act.

In my opinion, the financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements in Finland. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company result of operations, as well as of the financial position. The financial statements can be adopted and the members of the Board of Directors and the Managing Director can be discharged from liability for the period audited by me. The proposal made by the Board of Directors on how to deal with the retained earnings is in compliance with the Finnish Companies Act.

Kotka, 27 February 2004

Ari Ahti
Authorized Public Accountant

Statistical Information 1994 – 2003

Group		1994	1995	1996
Turnover	EUR million	137.89	179.18	117.74
change from previous year	%	26.5	29.9	-34.3
Operating profit	EUR million	24.98	51.47	3.63
Operating profit	% of turnover	18.1	28.7	3.1
Profit/loss before extraordinary items	EUR million	21.01	45.17	-0.77
Profit/loss before extraordinary items	% of turnover	15.2	25.2	-0.7
Profit/loss for accounting period	EUR million	7.81	24.18	-0.91
Balance sheet total	EUR million	183.83	187.25	164.16
Fixed assets	EUR million	118.17	127.81	120.95
Inventories	EUR million	11.89	12.90	9.05
Current assets	EUR million	35.73	46.54	34.16
Adjusted equity		18.04	0.00	0.00
Adjusted equity 1)	EUR million	16.69	40.75	42.77
Dividends paid	EUR million	0	0	0
Liabilities	EUR million	167.14	146.50	121.39
Fire insurance value of fixed assets	EUR million	417.43	430.22	437.77
Gross investments	EUR million	7.24	21.25	5.36
of which leasing financing	EUR million			
Depreciation	EUR million	10.55	11.61	12.22
Average number of personnel	Persons	360	359	339
Personnel cost	EUR million	13.17	14.04	13.50
Return on equity 2)	%	124.6	157.3	-1.8
Return on investment 3)	%	23.2	34.4	3.1
Current ratio 4)		0.91	0.75	0.61
Equity ratio 5)	% of balance	9.1	21.8	26.1
Gearing 6)	%	701.6	199.5	193.6
Degree of self-financing of investments 7)	%	253.5	182.1	211.8
Price of pulp, EXW	EUR/tonne	427	554	409
Total production cost 8)	EUR/tonne	374	422	422
Interest-bearing net debts 9)	% of turnover	84.9	45.4	70.3
Production, pulp	Tonnes	305997	319447	269078
Crude tall oil	Tonnes	13142	11002	9313
Turpentine	Tonnes	1607	1388	1314
Operating rate	%	95	94	79

1997	1998	1999	2000	2001	2002	2003
129.76	117.82	117.84	187.43	161.18	128.25	140.02
10.2	-9.2	0.0	59.1	-14.0	-20.4	9.2
13.63	1.35	8.29	68.19	34.70	3.42	2.44
10.5	1.1	7.0	36.4	21.5	2.7	1.7
8.10	-2.72	4.60	63.82	30.38	-0.10	-2.57
6.2	-2.3	3.9	34.1	18.8	-0.1	-1.8
9.57	1.89	3.31	45.12	21.54	-0.07	-1.83
176.02	176.69	215.75	243.49	228.05	216.09	209.85
128.41	141.87	159.31	160.37	172.79	170.64	164.72
11.16	8.87	10.26	14.19	16.08	20.80	18.57
36.46	25.95	46.17	68.93	39.62	24.65	26.57
0.00	0.00					
52.34	54.23	57.54	102.68	103.42	90.47	88.65
0	0	0	0	20.80	12.87	0.00
123.68	122.46	158.21	140.81	124.63	125.62	121.20
424.11	434.24	475.48	459.96	477.76	489.81	494.72
19.93	23.50	28.68	12.62	26.30	12.30	11.65
11.34	13.55	22.65	3.81	3.74		
12.46	10.04	11.24	11.56	13.87	14.46	16.42
342	350	337	331	327	321	326
13.30	14.19	13.38	14.45	15.33	14.82	15.45
17.0	-5.1	8.2	79.7	29.5	-0.1	-2.9
9.3	1.1	5.2	34.8	17.0	1.9	1.3
0.90	0.77	1.02	1.69	1.45	0.97	0.84
29.7	30.7	26.7	42.2	45.3	41.9	42.2
151.6	166.6	185.3	58.6	79.4	103.2	110.3
120.2	44.0	9.5	506.2	102.7	86.5	110.9
407	378	387	613	520	419	378
393	397	385	410	426	422	407
61.2	76.7	90.5	32.1	51.0	72.8	69.8
307343	292394	285325	301097	300536	301840	330587
11119	10378	11687	10293	8719	8312	12732
1563	1581	1038	654	952	896	1219
90	86	84	89	88	86	94

Notes to Statistical Information

1) Adjusted equity

Equity + Reserves ± Difference between actual and planned depreciation – Tax credit

2) Return on equity %

$$100 \times \frac{\text{Profit/loss before extraordinary items} - \text{Direct taxes}}{\text{Equity a)}}$$

3) Return on investment %

$$100 \times \frac{\text{Profit/loss before extraordinary items} + \text{Interest and other financial expenses}}{\text{Balance sheet total} - \text{Non-interest-bearing liabilities a)}}$$

4) Current ratio

$$100 \times \frac{\text{Inventories} + \text{Short-term receivables} + \text{Cash in bank and in hand}}{\text{Short-term liabilities}}$$

5) Equity ratio

$$100 \times \frac{\text{Adjusted equity} + \text{Minority interest} + \text{Accrued provisions}}{\text{Balance sheet total} - \text{Advances received}}$$

6) Gearing %

$$100 \times \frac{\text{Interest-bearing debts} - \text{Liquid funds}}{\text{Shareholders' equity} + \text{Minority interest} + \text{Accrued provisions}}$$

7) Degree of self-financing of investments

$$100 \times \frac{\text{Income from year's operations in the funds statement}}{\text{Net investments}}$$

8) Total production cost

$$100 \times \frac{\text{Turnover} - \text{Profit/loss before extraordinary items} - \text{Delivery cost}}{\text{Sales (tonnes)}}$$

9) Interest-bearing net debts

$$100 \times \frac{\text{Interest-bearing liabilities} - \text{Interest bearing current assets}}{\text{Turnover}}$$

a) Average at the beginning and end of the year

Operation Reviews



Customer Service

Compared to 2002 total pulp sales grew by 17 per cent to 335 380 tonnes (286 681 tonnes). Pulp stocks went down by 4 794 tonnes to 24 887 tonnes (29 681 tonnes).

Of the total deliveries 86 per cent went to wood containing papers, 4 per cent to fine paper, 8 per cent to the other special paper grades and 2 per cent to board.

Of the total sales, exports accounted for 42 per cent, 140 734 tonnes, of which the share of market pulp was 26 per cent, 37 154 tonnes. Export sales grew by 71 per cent.

European countries accounted for 71 per cent, the United States for 21 per cent and China for 8 per cent of the total export sales.

Of the total pulp exports 81 per cent was shipped through the Sunila harbour.

In technical customer service, the main topic was the even quality of pulp. This will be clearly improved when the chip silos are in use.

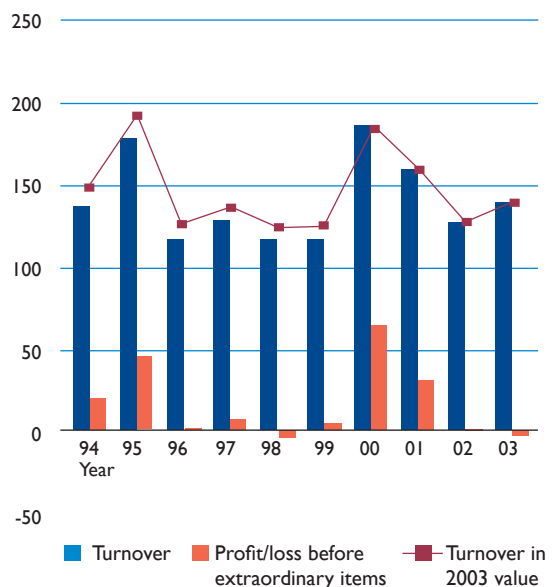
		2003	2002
Total deliveries	tonnes	335 380	286 861
Deliveries to shareholders	tonnes	285 693	268 218
Market pulp	tonnes	49 687	18 642
Export	tonnes	140 734	82 499
Pulp stock 31 Dec.	tonnes	24 887	29 681
Crude tall oil	tonnes	12 732	8 312
Turpentine	tonnes	1 219	896

Production

Pulp production was 330 588 tonnes, which is more than 10 000 tonnes higher than the previous annual record. The new record was achieved despite machinery damage at the beginning of the year and the nationwide Paper Union strike on 3 December. Production ran especially well from the end of August till the Christmas downtime. During this period, the daily average production was more than 1 000 tonnes.

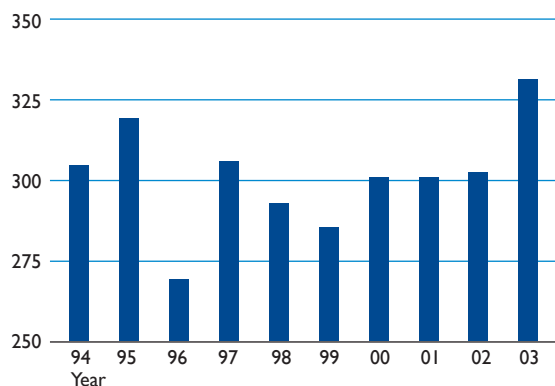
Turnover / Result

EUR million



Pulp production

1000 tonnes





There were no production curtailments. The total of operating days was 347.0 (315.5).

		2003	2002
Pulp	tonnes	330 587	301 840
Crude tall oil	tonnes	12 732	8 312
Turpentine	tonnes	1 219	896
Pulp stock 31 Dec.	tonnes	24 887	29 681
Operating days	days	347.0	315.5

Energy

Total energy production was 1 784 GWh (1 607 GWh). Black liquor and bark (biofuels) accounted for 98 % (96 %) of the energy production. The produced energy was utilised as process heat and electricity. Green Energy certificates, which are used for electricity generated from biofuels, were sold to Holland. The electricity production volume was 277 GWh (231 GWh) and consumption 270 GWh (250 GWh).

Natural gas consumption was 23.8 million. Nm³ (23.9 million. Nm³). The lime kilns accounted for 72 per cent (62 per cent) of the natural gas consumption. In addition to the lime kilns, natural gas is used as a secondary fuel in the burning of malodorous gases and as a booster fuel in the bark boiler and the other recovery boiler.

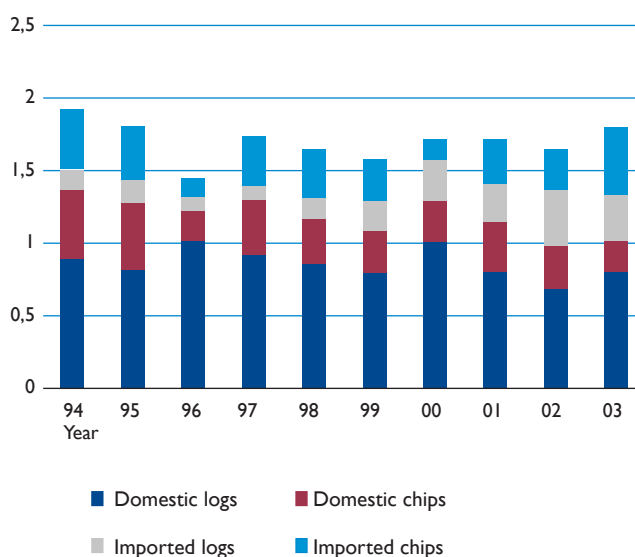
Wood Procurement

Purchases of wood were 1 808 500 m³. Compared to the previous year, the volume grew substantially due to increased production. The share of sawmill chips of the total deliveries was to 37 per cent (41 per cent) and spruce 36 per cent (44 per cent). Fresh wood share was 79 per cent (78 per cent). Due to the import volumes, the share of certified wood was 46 per cent (45 per cent) of the total deliveries.

The domestic raw material share was 56 per cent (59 per cent). Of the imported wood 69 per cent (75 per cent) came from Estonia, 27 per cent (17 per cent) from the other Baltic countries and 4 per cent (8 per cent) from Russia.

Wood deliveries

Million m³





When categorised by the delivery methods, the share of raw material delivered by road was 45 (50), by rail 11 (10) and by sea 44 (40) per cent.

		2003	2002
Total procurement	m ³	1 808 485	1 664 441
Import	m ³	791 131	679 943
Chips	m ³	674 240	679 189
Spruce	m ³	648 528	734 590
Wood stock 31 Dec.	m ³	35 903	69 808

Harbour

The total volume of Sunila harbour grew from the previous year by 21 per cent to 866 800 tonnes. Due to the larger size of the vessels the number of vessels visiting the harbour fell to 280 (300). The shipments of raw materials or products of Sunila Oy or its shareholding companies accounted for 99 per cent of the total volume.

		2003	2002
Total volume	tonnes	866 800	715 000
Pulp	tonnes	162 800	124 000
Chips	m ³	487 000	385 900
Round wood	m ³	392 600	372 200

Investments and Development

During the period under review, the development investments totalled EUR 7.4 million and maintenance investments EUR 4.3 million.

The chip storage and feeding project was completed in October. The investment consists of four roofed, concrete-framed chip silos. They make it possible to store and feed the different raw material components separately into the process thus improving the final product quality.

A smoothing press was installed on drying machine No 6 during the summer stoppage. It was taken into use successfully and the targets set for it in facilitating the slushing of pulp bales in the pulper were achieved.

Electricity distribution reliability and safety was improved by renewing the 6 kV the main switch.

Installing new safety devices to railroad crossings within the mill area continued the mill area traffic safety improvement project. Road traffic to the office building was also rerouted.

In research and development focus was on pulp quality development by optimising the conditions in the cooking process.

Total Quality Management

The work to integrate the quality, environmental and safety systems into an operating system was completed at the beginning of the year. At the same time, the quality, environmental and safety policies were combined into the company principles, which also include the company values (see page 22). The certificate according to the ISO 9001:2000 standard was granted to Sunila Oy on 14 November 2003.

Corporate Social Responsibility

As a part of building the corporate image and interaction with the surrounding community, an Open Doors day was arranged at the mill in September. During the day, 800 people visited the mill to get acquainted with its raw material handling, production process, products and environmental impacts. The experience of the day was positive both for the visitors and for Sunila Oy.



Environmental Protection

In 1996 Sunila Oy committed itself to the adherence of the principles of sustainable development by the International Chamber of Commerce (ICC). In the same year, Sunila was awarded the ISO 9001 quality certificate and in 1999 the ISO 14000 environmental certificate. Sunila Oy published its first environmental statement conforming to the EMAS regulation in October 2002. The related EMAS certificate, the 46th certificate of this kind in Finland, was given to Sunila Oy on 8 January 2003.

The 2002 EMAS environmental report was published in the autumn of 2003. The year 2003 details will be updated in a separate report, which will be audited by an independent external auditor.

Landscaping of the old dumping place was completed. Mill process waste, soda sediment and bark boiler ash as well as fibre suspension delivered by an outside supplier were utilised in the landscaping. The top layer was built of old bark, which had been temporarily stored.

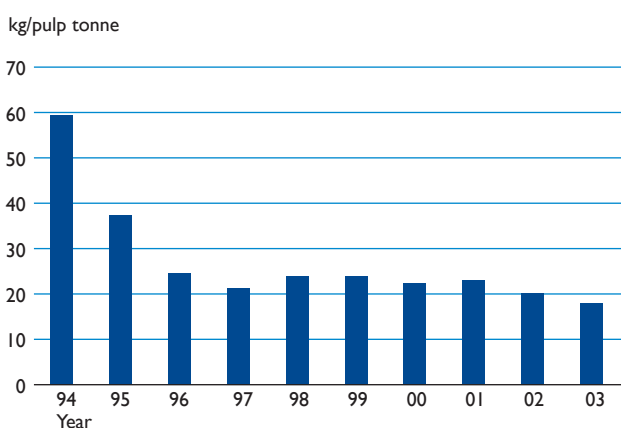
During the year 19 (41 in 2002) environmental inquiries were recorded, of which 12 (22) were made regarding odour emissions and 3 (15) regarding the dry dust sediment from the dumping place, which caused nuisance in the nearby residential area. There were no inquiries regarding noise, in comparison with the 4 inquiries recorded in the previous year. Other inquiries were made concerning occasional melt or other waters.

The waste water load was below the permit limits. Recovery boiler and lime kiln emissions into air were also within the permit limits. With the bark boiler, emissions into air caused problems due to the low usage of the boiler. Carbon monoxide emissions from the bark boiler exceeded the permit limit at times. The permit limit for the furnace temperature was not fully achieved according to the measurement when sewage sludge was burned. There is considerable uncertainty involved in the temperature measurement.

Environmental costs totalled EUR 7.1 million. Of the total costs, depreciations of environmental investments totalled EUR 5.0 million, waste water treatment costs EUR 1.0 million and waste management, including the landscaping of the old dumping place EUR 0.7 million.

Environmental protection investments in 2003 included

Chemical oxygen demand (COD)





replacing sulphur dioxide with sulphuric acid and part of the chip silo investment, totalling EUR 0.4 million.

Safety

As a part of the “Zero Accident” programme, the use of safety helmets and shoes was made obligatory in the mill departments in April. Arranging 13 training sessions with a total of 170 participants started a safety training programme, which is aimed for the whole personnel. Safety training to the partnership companies and subcontractors was organised together with an insurance company.

In the four-year mill area traffic safety project, the railroad crossings were improved and a road connection to the new office parking lot was built in 2003.

The number of accidents among Sunila’s employees decreased to 28 from the 34 accidents in the previous year. These caused 206 (266) days of absence from work. Almost half of the total number of days absent from work due to accidents or illness was caused by accidents on the way to or from work. The employees of the partner companies with operations in the Sunila area had 5 (9) accidents.

The use of liquid sulphur dioxide was stopped in the mill in the autumn.

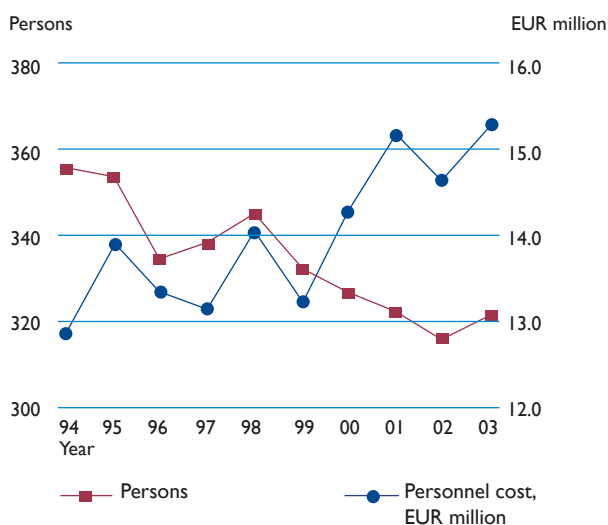
Personnel

At the end of the year, Sunila Oy employed 293 (300) permanent employees, the average of the year being 321 (316) persons.

The personnel’s absences caused by illness or accidents were 9.2 per cent (10.2 per cent). The main reason for the absences was long-term rheumatic and locomotory organ diseases.

In addition to the “Zero Accident” training, the whole personnel were trained on the company values. In the training sessions, the values were addressed from the aspects of their meaning for the department, the whole company and the person’s own work. A total of 11 value discussion meetings were held and 145 employees attended the meetings.

Personnel and personnel cost



Sunila Oy Values and Principles



Customer Satisfaction

Our aim is customer satisfaction. We supply both external and internal customers with products and services that meet their needs.

Profitable Operation

The basis for continuity of the operations is profitability, which is achieved through an adequate production volume and a competitive cost level.

Continual Improvement

We develop our processes and procedures continuously by applying the best available technology taking the financial aspects into consideration. Our minimum standard is to follow the current legislation. All Sunila Oy employees recognise their responsibility for the quality of their own work and its improvement. The senior management is responsible for developing the operations and the adequacy of the resources.

Environmental Responsibility

We follow the principles of sustainable development in our operations. We recognise the environmental and safety impacts of our operations. Our aim is to minimise the harmful impacts as well as to prevent problems and realisation of risks.

Successful Co-operation

Our aim is a positive working environment and good human relations. We inform openly of our operations and maintain an unaffected dialogue with the surrounding community.



EMAS

VERIFIED
ENVIRONMENTAL
MANAGEMENT

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