

Key role in optimising usage of

wood raw material

The Forest Products product area has two strategic functions:

- Wood Supply Europe maximises efficiency and overall value-added by co-ordinating wood supplies to the sawmills and pulp mills in Europe, and by ensuring best practices throughout the supply chain.
- Stora Enso Timber serves the wood products industries and trade globally by developing and supplying standardised and value-added wood products.

The Forest Products product area comprises Stora Enso Timber, Stora Enso Wood Supply Europe, the Pulp Competence Centre, and Pulp Marketing and Procurement. Stora Enso Timber converts the most valuable parts of the wood supply into competitive wood products for customers worldwide. Wood Supply Europe is responsible for procuring and supplying cost-competitive wood to Stora Enso's European mills, for securing the optimal raw material for each end use from sustainable sources, and for forest-related environmental matters globally. The Pulp Competence Centre focuses on transferring best practices, sharing and co-ordinating expertise, and research and development in chemical pulp. Pulp Marketing and Procurement manages both internal and external pulp flows for Stora Enso.

Optimising utilisation of wood

Stora Enso Forest Products ensures the maximum synergy benefits are gained from integrating wood supplies to the sawmills and pulp mills. Wood raw material is a major cost and co-ordinating the wood supply as an entity greatly improves overall efficiency and value creation.

Stora Enso Forest Products has been actively pursuing this strategy in 2004 by strengthening its presence in all areas of operation and establishing a comprehensive wood supply system that makes it one of Europe's leading and most competitive wood suppliers.

Expansion to secure supplies and growth

Wood supply markets are very tight, especially in Northern Europe, so Stora Enso is expanding wood sourcing and processing into new areas.

Russia is important to the Group as a supplier of wood raw material and a growth market for its products. Stora Enso has strengthened its Russian wood procurement operations, which can serve as a platform for future industrial expansion in Russia. Following acquisition of wood procurement companies in Russia in 2004, Stora Enso is looking to increase its own cutting rights to gain greater control of the wood supply chain

and improve social and environmental performance and transparency.

Stora Enso is also developing a wood terminal network in Russia to acquire wood raw material and transport it efficiently to the mills. Stora Enso has several terminals in operation and intends to increase the network. The Group is following a stepwise strategy for expansion in Russia, aiming to keep risks in balance.

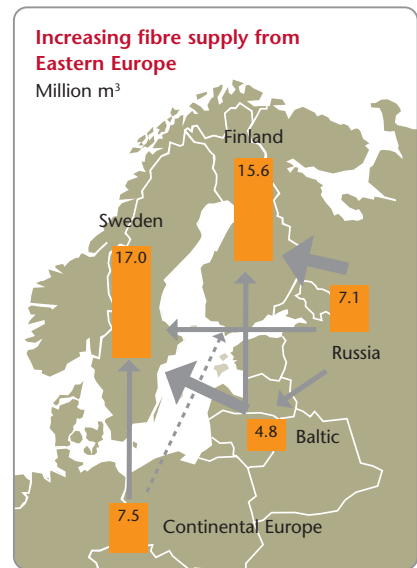
Wood supply operations have been increasing rapidly in 2003 and 2004 in the Baltic States, along with increases in manufacturing output. The next natural area for expansion for Wood Supply Europe is Poland, following acquisition of the Polish packaging producer Intercell in October 2004.

Adding value for wood products customers

Wood Products is one of the core businesses of the Group. Stora Enso Timber supplies sawn and processed softwood products to its customers worldwide. The focus is on strong growth sectors within the construction and joinery industries and timber retail markets.

A cornerstone of Stora Enso Timber's strategy is to increase value for the customer by moving from bulk to standardised, mass-customised and higher-value-added products, and by offering complete solutions for selected end-use segments. Stora Enso Timber is developing internal product standards to ensure consistent performance in various end uses. The increasing proportion of further-processed products in the output reduces the volatility of the business and increases profitability. Local customer service is being enhanced by developing distribution solutions and in-depth expertise in products and end-uses.

Stora Enso Timber has increased its production efficiency and output in all areas of operation in the past two years, especially in Russia and the Baltic States. New further-processing capacity has come on stream in Finland, Sweden and Estonia, and major investments are in progress in Central Europe and Estonia to manufacture glue-laminated posts and beams for the house-building industries. ●



Stora Enso's procurement from different operating areas in 2004

COMPETITIVE WOOD PRODUCTS

Stora Enso Timber is developing from a commodity sawn timber producer into a strong, globally operating supplier of wood products and related services. The product properties required nowadays determine the species used, and pine (redwood) and spruce (whitewood) are specifically sought for only some end-uses. Stora Enso Timber's growth markets are in the construction and joinery industries, and wood products trade.

Products for timber frame construction are solid or glued standardised posts, beams, studs and joists, usually made from whitewood, whereas Nordic redwood is often more suitable for joinery customers manufacturing windows, doors and furniture.

Wood Products

Stora Enso Timber is an international wood products company that provides customer-focused solutions to the construction and joinery industries and the wood products trade worldwide. Its annual net sales are EUR 1.6 billion. Stora Enso Timber's total annual production capacity is 7.7 million m³ of sawn wood products, including 3.2 million m³ of value-added products. It employs 4 900 people in 25 softwood sawmills and 23 further-processing plants in ten European countries and in its sales and distribution companies throughout the world.

Stora Enso Timber focuses on mass-customised value-added products for growing industrial end-uses. They include glue-laminated, stress-graded and finger-jointed products and components for standardised building purposes and the joinery industries. Another focus area is timber retailers, merchants and importer-distributors, served with wide range of sawn and processed wood products.

Outlook

Globally the wood products market is stable but European suppliers are suffering from oversupply as well as currency fluctuations and rises in maritime freight rates. In the North American and Japanese markets oversupply puts pressure on prices. Increased wood supply resulting from the recent storm in Northern Europe will put pressure on

sawn product prices. In the USA the construction market is strong but mortgage rate increases will affect demand. Japanese construction activity should remain largely unchanged. However, the further weakening of the US dollar has caused some repatriation of volumes and decreased profits. In the joinery and retail businesses, volumes and prices are quite stable. ●

Key figures*

	2002	2003	2004	% of the Group
Sales, EUR million	1 235.2	1 400.0	1 566.8	11.7
Operating profit, EUR million	44.5	26.5	34.7	10.3
% of sales	3.6	1.9	2.2	
Operating capital, EUR million	408.0	637.7	687.5	6.0
Return on operating capital, %	10.9	5.1	5.2	
Capital expenditure, EUR million	53.3	141.9	68.1	7.0
Average number of employees	3 745	4 626	4 856	11.1

*excluding goodwill

1 000 m ³	Deliveries 2002	Deliveries 2003	Deliveries 2004	Capacity 2005
Sawn wood products	5 112	5 822	6 664	7 720
of which further-processed wood products	1 207	1 406	1 803	3 207

Wood Supply Europe



Wood Supply Europe brings together all the European wood supplying businesses operating in the Baltic States, Continental Europe, Finland, Russia and Sweden. Wood Supply Europe applies sustainable forest management principles and optimises Stora Enso's wood and fibre flows.

Outlook

The wood market around the Baltic is expected to turn into a short-term oversupply of long-fibre wood due to storm damage to forests in Sweden and the Baltic States. Most of the short-term fall in wood costs will be offset by increased harvesting and transport costs in the storm-affected areas. ●

Key figures

	2002	2003	2004
Internal deliveries, million m ³ sub	31.3	39.3	41.6
External deliveries, million m ³ sub	8.7	10.2	10.1
Average number of employees	2 265	2 599	3 157