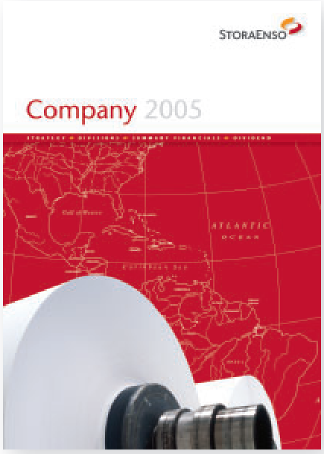
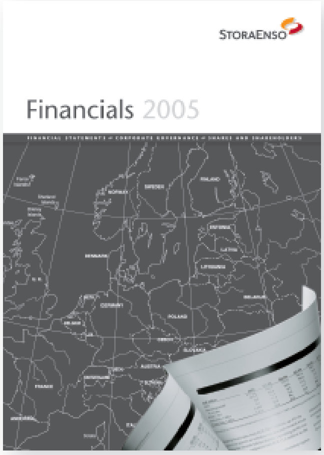
Company 2005

STRATEGY • DIVISIONS • SUMMARY FINANCIALS • DIVIDEND

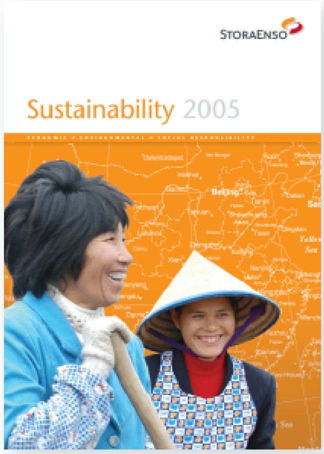
Stora Enso's Annual Report 2005 comprises three separate booklets



- Letter to shareholders
- Strategy and actions in 2005
- Divisional presentations
- Board of Directors and management



- Financial statements and notes
- Operating and financial review
- Corporate governance
- Shares and shareholders



- Sustainability governance, targets and performance
- Sustainability in value chain
  - raw materials and suppliers
  - the Group
  - markets
  - investors
  - society

Printed copies of the report may be ordered through our website at www.storaenso.com/order or by contacting any of the corporate offices (see back cover).

DIVIDEND AND AGM INFORMATION

Payment of dividend

The Board of Directors proposes to the Annual General Meeting (AGM) that a dividend of EUR 0.45 per share be paid for the fiscal year ending 31 December 2005.

Dividends payable on VPC-registered shares will be forwarded by VPC and paid in Swedish krona. Dividends payable to ADR holders will be forwarded by Deutsche Bank Trust Company Americas and paid in US dollars.

Dividend policy

- Strive to pay stable dividends linked to the long-term performance
- One half of net profits over a business cycle

Annual General Meeting

The AGM of Stora Enso Oyj will be held at 16.00 (Finnish time) on Tuesday, 21 March 2006 at the Marina Congress Center, Katajanokanlaituri 6, Helsinki, Finland.

AGM AND DIVIDEND CALENDAR FOR 2006

10 March	Record date for AGM
21 March	Annual General Meeting (AGM)
22 March	Ex-dividend date
24 March	Record date for dividend
5 April	Dividend payment effect

For more details, see Information for Shareholders on the back cover.

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COMPANY AND STRATEGY

STORA ENSO IN BRIEF

STRATEGY

DIVISIONS

DIVISIONS

Stora Enso reviewed and reorganised its organisational structure in 2005. The new organisation, based around global product divisions, is designed to enhance the Group's potential to expand in new growth markets and develop globally. The North American division was merged into the global product division structure. As a result, financial figures for North American operations will no longer be reported separately twice a year.

HUMAN RESOURCES AND GOVERNANCE

HUMAN RESOURCES

GOVERNANCE

SHARE AND FINANCIAL SUMMARY

APPENDIX

Stora Enso in brief

Stora Enso is an integrated paper, packaging, and forest products company, producing publication and fine paper, packaging board, and wood products – all areas in which the Group is a global market leader.

Stora Enso's sales totalled EUR 13.2 billion in 2005. The Group has some 46 000 employees in more than 40 countries on five continents. Stora Enso has an annual production capacity of 16.9 million tonnes of paper and board and 7.7 million cubic metres of sawn wood products, including 3.3 million cubic metres of value-added products. Stora Enso's shares are listed in Helsinki, Stockholm, and New York.

Stora Enso serves its mainly business-to-business customers through its own global sales and marketing network. A global presence provides local customer service. Customers include publishers, printing houses, and merchants, as well as the packaging, joinery, and construction industries – and are mainly concentrated in Europe, North America, and Asia. As Stora Enso moves into the future, the Group is focusing on expanding its operations in new growth markets in China, South America, and Russia.

The Group has production facilities in Europe, North and South America, and Asia. Modern production capacity, combined with efficient raw material and energy sourcing and efficient processes, ensure excellent continuity of production.

Stora Enso is committed to sustainability – economic, environmental, and social responsibility underpins our thinking and our approach to every aspect of doing business. The Group builds accountability into its operations by being transparent and engaging in open dialogue with its stakeholders. Group-wide targets and clear governance are used to monitor and measure how well Stora Enso performs in terms of sustainability.

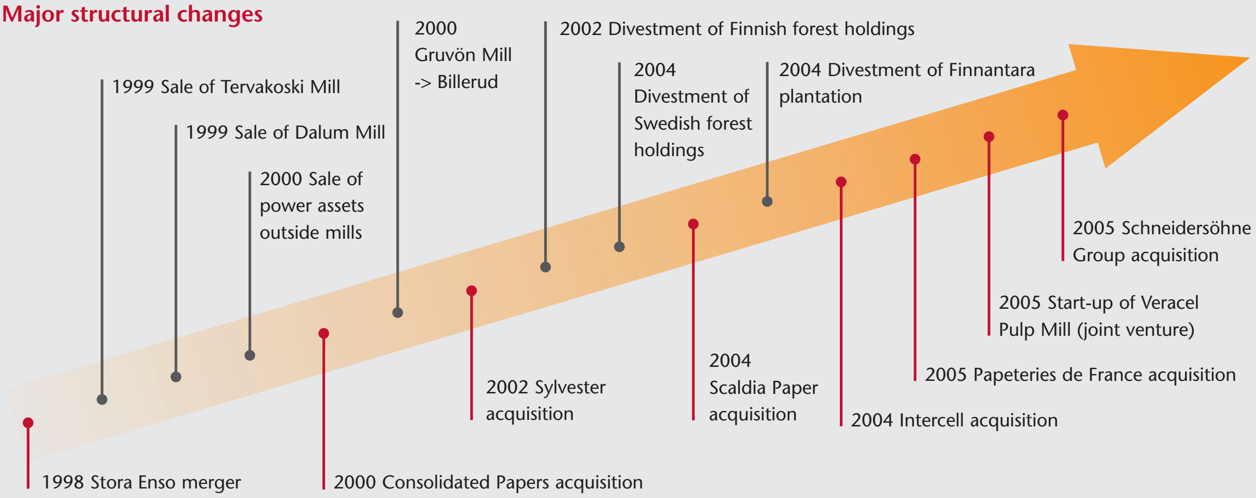
Mission, vision and values

Mission:
We promote communication and the well-being of people by turning renewable fibre into paper, packaging and processed wood products.

Vision:
We will be the leading forest products company in the world
We take the lead in developing the industry
Customers choose us for the value we create
We attract investors for the value we create
Our employees are proud to work with us
We are an attractive partner for our suppliers

Values:
Customer focus
We are the customer's first choice
Performance
We deliver results
Responsibility
We comply with principles of sustainable development
Emphasis on people
Motivated people create success
Focus on the future
We take the first step

Major structural changes



Main events in 2005

Improving profitability

Stora Enso announced two major improvement programmes in October: Profit 2007 and the Asset Performance Review (APR). Profit 2007 is targeting an improvement of EUR 300 million in annual pre-tax profit from mid-2007 onwards. Following the APR, Stora Enso has announced that it plans to close a number of units, and has identified units that will be divested or placed under scrutiny. The units that are to be closed have not been achieving the Group's financial performance targets. The closures are intended to improve the viability of Stora Enso's asset base. The decision to divest units has been based on an assessment of units' profit potential, strategic fit, and realisable value. The mills that have been placed under scrutiny will have to improve their performance. Final decision about their future will be taken during 2006. Mill performance will be evaluated using a range of financial and operational indicators, with long-term profitability as the key criterion.

Labour dispute in Finland

A new collective labour agreement for the paper industry in Finland was signed in July. This was preceded by a labour dispute lasting around seven weeks that halted Finnish production.

A stronger merchant business

Stora Enso and International Paper closed Stora Enso's acquisition of the French paper merchant, Papeteries de France (PdF), in April.

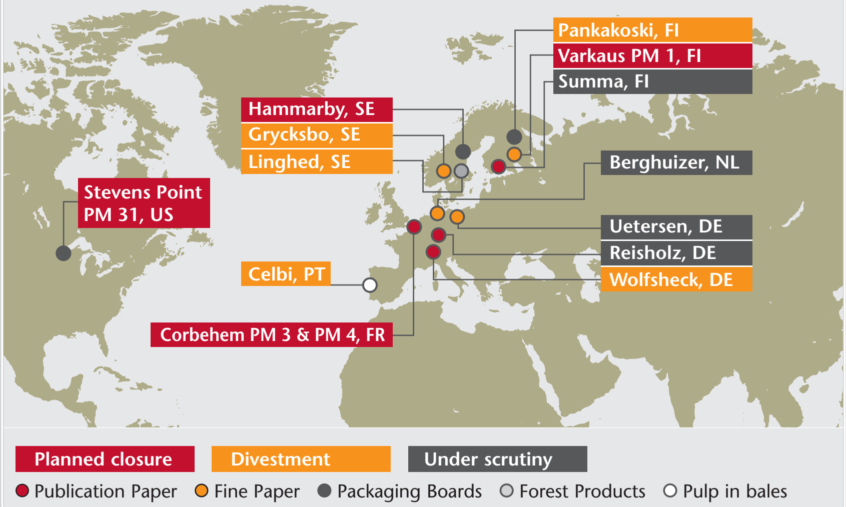
The acquisition of 100% of the shares in the German paper merchant, the Schneidersöhne Group, was completed in August.

Events in South America and China

Veracel Pulp Mill was inaugurated in September. Production of eucalyptus pulp started at the mill in May. In September, Stora Enso announced that it had started purchasing land in southern Brazil and Uruguay for fast-growing plantations.

In November, Stora Enso signed an agreement with Gaofeng Forest – Pulp & Paper Company that will enable Stora Enso to increase its land concession rights and wholly owned plantations in southern China to approximately 60 000 ha.

Asset Performance Review



Key figures	2004	2005
Sales, EUR million	12 396	13 188
Operating profit, EUR million	706	-94
excluding non-recurring items, EUR milliion	336	357
% of sales	2.7	2.7
Profit before tax and minority interests, EUR million	639	-178
excluding non-recurring items, EUR million	269	273
Net profit for the period (attributable to Company shareholders), EUR million	740	-130
Capital expenditure, EUR million	980	1 145
Interest-bearing net liabilities, EUR million	3 051	5 084
Capital employed, EUR million	10 656	12 103
Return on capital employed (ROCE), %	6.3	-0.8
excluding non-recurring items, %	3.0	3.1
Return on equity (ROE), %	9.2	-1.6
Debt/equity ratio	0.38	0.66

	2004	2005
Earnings/share, EUR	0.89	-0.16
diluted, EUR	0.89	-0.16
excluding non-recurring items, EUR	0.25	0.28
Cash earnings/share, EUR	2.02	1.62
diluted, EUR	2.02	1.62
excluding non-recurring items, EUR	1.67	1.70
Dividend/share, EUR	0.45	*0.45
Equity/share, EUR	9.80	9.70
Payout ratio, %	180	*161
Market capitalisation, EUR million, 31 Dec.	9 486	9 304
Deliveries of paper and board, 1 000 tonnes	14 410	14 150
Deliveries of wood products, 1 000 m³	6 664	6 741
Average number of employees	43 779	46 166

*Board's dividend proposal

A summary of the press and stock exchange releases and interim reviews published by Stora Enso during 2005 can be found at www.storaenso.com/press

Publication Paper

PRODUCTS

Super-calendered (SC), uncoated machine-finished (MF), machine-finished coated (MFC), and coated (LWC, MWC, HWC) magazine paper, newsprint and newsprint specialities, directory and book paper, and wallpaper.

Used in magazines, advertising material, catalogues, directories, direct mail, newspapers, and books.

Market position

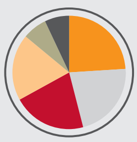
Magazine Paper

- world's second-largest producer of magazine paper
- 17% market share globally (20% in Europe, 18% in North America, 3% in Asia, and 12% in Latin America)
- main markets in Europe (56% of sales) and North America (38% of sales)
- annual production capacity of 4.9 million tonnes

Newsprint

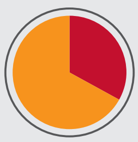
- world's third-largest producer of newsprint and newsprint specialities
- 7% market share globally (22% in Europe, 2% in North America and 2% in Asia)
- main markets in Europe (83% of sales), Asia (6% of sales), and North America (8% of sales)
- annual production capacity of 3.4 million tonnes

Capacity



Germany	24%
Finland	22%
Sweden	21%
North America	19%
France	7%
Belgium	7%

Share of Group sales



Publication Paper	33%

Fine Paper

PRODUCTS

Graphic paper (coated fine paper) for commercial printing and high-quality books. Office paper (uncoated fine paper) mainly used for document printing and print-on-demand applications.

Papyrus – paper merchant

Paper, board, and other graphical products, and smart e-service solutions for the graphic industry, retailers, offices, and the public and industrial sectors.

Market position

Graphic Paper

- world's second-largest producer of graphic paper
- 10% market share globally (12% in Europe, 15% in North America, and 3% in Asia)
- main markets in Europe (42% of sales), North America (38% of sales), and Asia (13% of sales)

Office Paper

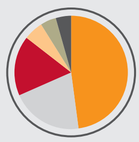
- world's sixth-largest producer of office paper
- Europe's largest producer of office paper
- 4% market share globally (12% in Europe)
- main markets in Europe (86% of sales) and Asia (7% of sales)

Papyrus

- Europe's second-largest paper and packaging merchant
- 15% market share in Europe

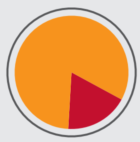
- annual fine paper production capacity of 4.4 million tonnes

Capacity



Finland	48%
North America	21%
Sweden	17%
Netherlands	6%
Germany	5%
China	4%

Share of Group sales



Fine Paper	18%

Packaging Boards

PRODUCTS

Consumer board (liquid packaging board, cupstock and carton-board), speciality paper (technical, flexible packaging, and label paper), and industrial packaging (corrugated packaging, containerboard, laminating paper, paper sacks, sack and kraft paper, cores and coreboard).

Market position

Consumer Boards

- one of the world's leading producers of consumer packaging board
- main markets in Europe (82% of sales), Asia (13% of sales), and North America (2% of sales)

Speciality Papers

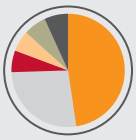
- world's largest producer of coated speciality papers
- main markets in North America (60% of sales) and Europe (29% of sales)

Industrial Packaging

- one of the leading corrugated packaging producers in Northern and Eastern Europe
- one of the leading producers of laminating paper globally
- second-largest producer of cores in Europe and the third-largest worldwide
- main markets in Europe (85% of sales), North America (3% of sales), and Asia (9% of sales)

- annual production capacity of 4.2 million tonnes of packaging board and paper, 1 110 million m² of corrugated packaging, and 232 000 tonnes of cores

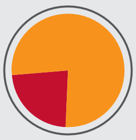
Capacity*



Finland	48%
Sweden	27%
Germany	7%
North America	7%
Other Europe	6%
Poland	6%

*) Excluding converting capacity

Share of Group sales



Packaging Boards	23%

Forest Products

WOOD PRODUCTS

Products

Sawn and value-added wood products used by the construction and joinery industries and the wood products trade.

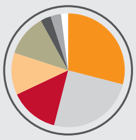
Market position

- world's third-largest producer of sawn softwood
- main markets in Europe (57% of sales), Asia (26% of sales), North Africa and the Middle East (9% of sales), and North America (8% of sales)
- annual production capacity of 7.7 million m³ of sawn wood products, of which 3.3 million m³ takes the form of value-added products

Value-added products

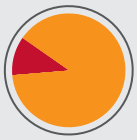
- mills in Austria, the Czech Republic, Estonia, Finland, Germany, Lithuania, the Netherlands, and Sweden

Capacity



Finland	28%
Austria	25%
Sweden	14%
Czech Republic	12%
Estonia	12%
Latvia	3%
Russia	3%
Lithuania	2%

Share of Group sales



Wood Products	11%

Dear Shareholder,

Last year was an important year for strengthening Stora Enso's platform for the future. The start-up of the Veracel joint venture pulp mill in Brazil in May and of Kvarnsveden's new uncoated magazine paper machine in Sweden in early November will have a large impact on the Group. We also expanded our merchant business through the acquisition of the Schneidersöhne Group in Germany.

The year saw our North American operations return to profitability following the virtual completion of the regional Profit Enhancement Programme, and our assets there are again generating a healthy operational cash flow. This positive development enabled us to create new global product divisions to meet the needs of today's business.

Profitability across the Group in 2005 was poor. Stora Enso's sales in 2005 totalled EUR 13 187.5 millon, and the Group's operating profit, EUR 357.5 million excluding non-recurring items. Profitability was badly hit by an industry-wide labour dispute in Finland, which halted the entire country's pulp and paper production for close to two months.

We launched a profitability improvement programme, Profit 2007, and an Asset Performance Review (APR) during 2005 to improve the competitiveness of our European production base. Profit 2007 has targeted an improvement in annual pre-tax profit of EUR 300 million by mid-2007.

The APR will involve a number of far-reaching changes, including capacity closures and the divestment of some units that lack the potential to achieve long-term profitability or do not form part of Stora Enso's core businesses. We have also placed four mills under scrutiny, and will require them to improve their profitability considerably if they are to continue operations. All these measures will help Stora Enso move forward more profitably in today's intense competitive environment.

The combined impact of the measures implemented under Profit 2007 and APR will reduce our workforce. These job losses will be unavoidable, however, to improve Stora Enso's competitiveness.

Although 2005 saw a long labour dispute in Finland, two important achievements resulted from this: the possibility to continue production uninterrupted over Christmas and Midsummer, and new rules on outsourcing.

The full positive impact of these new opportunities is still to come. The potential for outsourcing will be implemented later through mutual negotiations, hopefully at the local mill level. The fact that some local agreements have already been made is a positive sign.

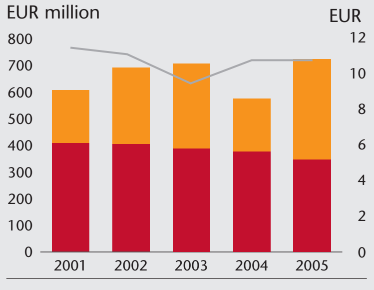
The start-up of our pulp joint venture in Brazil, Veracel, took place ahead of schedule, and production has already exceeded the mill's design capacity. Veracel supports our new growth market strategy of concentrating on low-cost, high-quality raw material supply. Positive experience with the new mill and our joint venture partner, Aracruz Celulose, has prompted us to investigate the possibility of launching a Veracel II project to double the mill's pulping capacity.

We have taken additional steps to improve our long-term strategic position in fibre sourcing in South America, and started purchasing land in southern Brazil and Uruguay. Our target is to establish approximately 100 000 hectares of plantations in each country, capable of supplying two fibre lines.

In China, we are also prioritising local fibre supply as a means of securing our expansion – and have increased our holdings in Guangxi province, bringing the Group's land concession rights and wholly owned plantations to 60 000 hectares. In addition to plantations, we are investigating various industrial alternatives that large plantation assets would make possible. Other projects linked to the Chinese market are also under consideration.

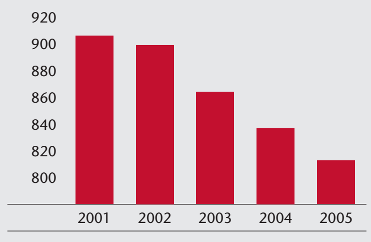
In Russia, our corrugated packaging business has developed very favourably, and we are investigating the potential

Dividends and share repurchases
EUR million



Shares repurchased
Dividend paid
Average share price

Shares outstanding
Million



Stora Enso started to acquire Company shares in 2000, and has returned over EUR 1.5 billion to shareholders since then.

Stora Enso's Chairman of the Board Claes Dahlbäck and CEO Jukka Härmälä.

for further expansion. Stora Enso's greenfield mill concept has been successful in Russia, and we hope to adapt this to new locations elsewhere in the country.

We have acquired three paper merchants in Europe over the last two years. The most important of these was the German-based Schneidersöhne Group, acquired in 2005. These acquisitions are in line with the Group's strategy of moving closer to end-customers. The comprehensive integration of these acquisitions is now under way to leverage the full benefits of our wider involvement in the total value chain.

The Board of Directors will propose an unchanged dividend of EUR 0.45 per share for 2005 to the Annual General Meeting, against the background of a somewhat stronger market and the potential this offers for improved profitability during 2006. The Board will also propose a new mandate for share buybacks. Stora Enso started to acquire Company shares in 2000, and has returned over EUR 1.5 billion to shareholders since then.

We would like to thank our personnel for their input in 2005, and hope that all of us will be ready and willing for the hard work that will be needed in 2006, particularly as part of our profitability improvement initiatives.

Helsinki, 2 February 2006

Claes Dahlbäck, Chairman

Jukka Härmälä, CEO

Improving profitability – time for action

Stora Enso is operated and managed as one industrial group, with a core product portfolio consisting of publication and fine paper, packaging board, and wood products.

Restoring profitability, as well as working more closely with our customers, is vital for Stora Enso in the mature markets of Europe and North America. Profitability will be improved with the profit enhancement programmes and structural changes, in addition to continuous productivity improvement in all operations. These measures, combined with the targeted development of our core assets, will be basis for the competitive future platform of Stora Enso in mature markets.

Working closer with customers in key markets continues to be one of the cornerstones of Stora Enso's strategy. We are committed to strengthening our merchant operations to get closer to end-users and expand our share of the paper and board value chain.

Stora Enso is focused on expanding its operations in new growth markets. We are continuing to secure access to low-cost fibre in the Southern Hemisphere to provide the platform for growth in our core product segments, both in growth and mature markets. The expansion of production in new growth markets will take place either through targeted greenfield investments or acquisitions.

Stora Enso is committed to sustainability – economic, environmental, and social responsibility underpins our thinking and our approach to every aspect of doing business. The Group builds accountability into its operations by being transparent and engaging in open dialogue with stakeholders. Group-wide targets and clear governance are used to monitor and measure how well Stora Enso performs in terms of sustainability.

Key financial targets

ROCE

Stora Enso's Return on Capital Employed (ROCE) target is 13% over the business cycle. ROCE is a good key indicator for a capital-intensive company such as Stora Enso. The Group's pre-tax weighted

Veracel's seedling nursery produces both eucalyptus and indigenous rainforest species. Stora Enso is expanding its operations in South America by purchasing land in southern Brazil and Uruguay.

average cost of capital (WACC) at the end of 2005 was 8.7%.

Stora Enso achieved a ROCE of 3.1% (excluding non-recurring items) in 2005, which is significantly below target and therefore unacceptable. The poor ROCE figure was impacted in particular by an extended labour dispute that affected the entire Finnish forest products sector and by increased variable costs. The Group has launched two profit improvement initiatives to address the low profitability: Profit 2007 and the Asset Performance Review (APR).

Growth

Stora Enso continues to aim for profitable growth, through both organic growth and selective mergers and acquisitions in core businesses, mainly in new growth markets.

Acquisitions will only be made if they meet Stora Enso's financial targets and make a positive contribution to Earnings per Share (EPS) and Cash Earnings per Share (CEPS) after one year, excluding synergies. Over the short-term, returns from acquisitions must exceed the Group's pre-tax WACC of 8.7%, and support the ROCE target of 13% over the long term.

Cash flow

Enhancing cash flow from operations is a high priority at a time of low profitability. To improve the efficiency of the management of its working capital, Stora Enso has set an internal benchmark that cash flow should exceed average capital expenditure and dividends, as calculated on a three-year rolling basis.

Stora Enso's cash flow from operations in 2005 totalled EUR 1 057.0 million, which was not in line with the Group's three-year rolling target. The main factors resulting to this were weak profitability and increased working capital, especially inventories.

Stability of the Company

Financial

Debt-to-equity ratio is a good indicator of balance sheet strength and financial flexibility. Stora Enso's target is 0.8 or less. In 2005, the Group recorded a debt-to-equity ratio of 0.66.

The ratio was impacted in 2005 by share buy-backs worth EUR 344.7 million and two acquisitions in the merchant business: Papeteries de France and the Schneidersöhne Group in Germany.

Volatility

Stora Enso aims to reduce the volatility of its business by making its portfolio less cyclical and by diversifying its operations geographically.

Shareholder return

Stora Enso's dividend policy is based on long-term stability. The current target is to distribute half of the Group's net profit over the cycle to shareholders as dividend.

A new share buy-back programme was approved by the Annual General Meeting held on 22 March 2005 that allows the Company to buy back up to 10% of its shares outstanding under new Finnish legislation. By the end of 2005, the Company had purchased 37.3% of the authorisation for R shares.

Further structural development

The launch of the APR was an important first step in improving the Group's underlying profitability. This work will continue with further assessment of the Group's strategy and the alignment of the product and production asset portfolio.

Continued focus on South America, China, and Russia

Stora Enso's new growth markets strategy continues to be focused on South America, China, and Russia. The strategy is based on captive low-cost fibre, targeting growing market segments, and balancing the portfolio.

Securing local fibre supply is central to achieving profitable expansion on China's rapidly growing paper and board markets. Stora Enso will concentrate on those business segments where it has competitive advantage in terms of its capabilities and proven track record.

South America continues to be an attractive region for developing a captive low-cost fibre supply base, and Stora Enso will act to further expand its low-cost fibre assets there.

Securing fibre supply from Russia to Nordic and Baltic mills remains vital for the Group. Further expansion of low capital-intensity production, such as corrugated board and sawmilling, will be investigated.

Reaching key financial targets	Target	2001	2002	2003	2004	2005
ROCE, % *	13	10.6	7.2	4.5	3.0	3.1
Debt/Equity ratio	≤ 0.8	0.58	**0.37	0.49	0.38	0.66
Dividend/share, EUR		0.45	0.45	0.45	0.45	***0.45
Payout ratio, % *	50	48	82	180	180	161

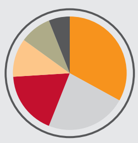
* Excluding non-recurring items **Adjusted with the initial valuation of IAS 41 Agriculture

*** Board of Directors' proposal to the AGM

Stora Enso's business drivers

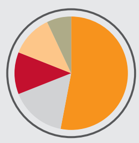
Sales in 2005

EUR 13.2 billion



Publication Paper	33%
Packaging Boards	23%
Fine Paper	18%
Wood Products	11%
Merchants	9%
Other	6%

Core business drivers



Advertising	53%
Business	16%
Non-durable goods	12%
Construction	12%
Other	7%

Strategy in action in 2005

Focusing on profitability

Two profit improvement programmes were introduced in 2005 covering Stora Enso's European operations to secure the competitiveness of the Group's assets in this key market.

The Profit 2007 programme has targeted improving Stora Enso's pre-tax profit by EUR 300 million annually from mid-2007 onwards. The measures needed to achieve this will include streamlining production costs and support, cutting administrative costs, as well as optimising the sales and production mix to improve overall efficiency. This is expected to result in a reduction in personnel of 2 000, and by a further 600 to 700 if additional outsourcing potential is taken up.

The Asset Performance Review has resulted in a decision to close four production units with 400 000 tonnes of capacity, and divest six other units. These actions will be finalised by the end of 2006. A total of 730 jobs will be lost as a result of the planned closures.

In addition, operations at four units will be subject to close and ongoing scrutiny. The units concerned are: Summa Mill in Finland, Berghuizer Mill in the Netherlands, and Reisholz Mill and Uetersen Mill in Germany. A decision will be taken on the future of these mills before the end of 2006.

The Profit Enhancement Programme in North America was largely completed by the end of 2005. Five of the planned six machine rebuilds and modernisations have been completed and four machines and pulp assets closed down. The number of personnel in North America as of the end of 2005 totalled 5 000, compared to 7 300 in 2000.

Closer to the customer

Stora Enso continued its strategy of moving closer to the end-use customer in the value chain in 2005, through the acqui-

The competitive environment in 2005

Demand growth for printing and writing paper remained modest in the mature markets of Western Europe and North America, but continued buoyant in new growth markets. Total world demand is estimated to have grown by 1% in 2005.

Demand for packaging grades also moved ahead faster in Eastern Europe and Asia, and China in particular, than in mature markets.

Demand for wood products grew well in North America, but remained marginal in Western Europe in 2005.

Western Europe

Production of printing and writing paper in Western Europe in 2005 is estimated to have totalled 36.2 million tonnes, and demand to have totalled 30.4 million tonnes, slightly up on 2004. Exports of these types of papers to other regions totalled some 7.3 million tonnes, and imports 1.3 million tonnes.

Production of standard newsprint production was down 1% on 2004, at 9.4 million tonnes, while demand was up 1%, at 9.2 million tonnes. As exports to other regions declined and imports increased, total deliveries were somewhat lower than in 2004. The market for improved newsprint continued to grow.

Western European production of cartonboard is estimated to have totalled 6 million tonnes, down 2% on 2004. Demand, at 4.5 million tonnes, was also 2% lower. The proportions of white lined chipboard, folding boxboard, and solid bleached sulphate board remained unchanged, at 2.7 million tonnes, 1.5 million tonnes, and 0.3 million tonnes respectively. Deliveries to Eastern Europe continued to rise, while those to other regions decreased slightly.

Production of wood products in Western Europe is expected to total 81.4 million m^3 in 2005, a 1% increase on 2004. Consumption rose only marginally, to 79.1 million m^3.

Eastern Europe

Production of printing and writing paper in Eastern Europe reached 3 million tonnes, an increase of 6% on 2004, while demand rose 7% to 4.6 million tonnes. Imports increased by 11% to 2.2 million tonnes.

Demand for newsprint expanded by 6% to reach 1.8 million tonnes in 2005. Imports totalled 0.6 million tonnes.

North America

Production of printing and writing paper in North America totalled 28.2 million tonnes in 2005, unchanged from 2004. Total demand reached 30.2 million tonnes, 2% down on 2004. Demand for uncoated mechanical paper increased the fastest, and was up by 3%. Imports and exports were virtually unchanged from 2004, accounting for 3.1 million and 1.1 million tonnes respectively.

Total production of newsprint continued to decline, and stood at 12.7 million tonnes, down by 5% on 2004, as capacity decreased by approximately 4%. Demand in North America fell back by over 5% to 10.4 million tonnes due to the use of lighter grades, a continuing fall in circulation figures, and a weaker advertising market.

Exports totalled 2.6 million tonnes, a slight increase on 2004.

sition of two paper merchants: Papeteries de France, with annual sales of approximately EUR 260 million, and the Schneidersöhne Group, Europe's second largest paper merchant based in Germany, with annual net sales of EUR 1 130 million. These acquisitions have improved Stora Enso's competitive position in Continental Europe and vertical integration providing significant synergy potential in the paper and board value chain.

Captive pulp for Europe and China

Veracel joint venture pulp mill started producing short-fibre pulp with high-quality and low-cost in May 2005, two months ahead of schedule. Deliveries to Stora Enso's mills in Europe and China started during the summer. The mill reached its full monthly capacity in November 2005.

Veracel is one of the lowest-cost pulp producers in the world. Encouraged by experiences so far, the Company has already announced preliminary plans to build a second fibre line at the site.

Stora Enso purchased additional land for fast-growing plantations in southern Brazil and Uruguay to strengthen its long-term fibre supply. The plan is to establish 200 000 hectares of plantations to facilitate local pulp production. The Company plans to construct pulping capacity and integrated paper or board production.

Strengthening presence in China

Stora Enso increased its plantation holdings in Guangxi in southern China by purchasing 34 000 hectares of land, bringing the Company's total plantation land area to 60 000 hectares, and strengthening Stora Enso's sustainable fibre resources for possible future expansion in China.

R&D highlights

R&D in Fine Paper division focused on tailoring pulp from Veracel Pulp Mill to meet the special needs of graphic paper grades and the machines producing these grades. This pulp has improved the end-use performance of Stora Enso Graphic Papers' products significantly.

Pharmaceutical Solutions business in Packaging Boards division has completed the first Stora Enso Pharma SHR child-resistant, senior-friendly carton manufacturing line, which will be located in the USA, which is the world's largest pharmaceutical market. The first commercial Pharma SHR application is expected to be launched in 2006.

North American consumption of wood products reached an estimated 177.3 million m^3, up 2% on 2004 and an all-time high, driven by the strong housing market in the USA. Production levels were also up 1.7% on 2004, reaching 177 million m^3.

Asia

Printing and writing paper production capacity in Asia rose by over 5% in 2005, due to major expansion in China.

Total demand in the region for these types of paper rose by 4% to approximately 38 million tonnes, a third of which was coated paper. Growth was fastest in China, where demand surged by approximately 6%.

Demand for newsprint in Asia in 2005 is estimated to have been 12 million tonnes, 3% higher than in 2004. Production totalled some 10 million tonnes, and net imports 1.8 million tonnes. Chinese demand is estimated to have been 2.7 million tonnes, up 12% on 2004. This was outpaced by a 14% growth in capacity.

Asian demand for cartonboard is estimated to have been 15.3 million tonnes, up 6%. This growth was driven by China, where demand grew by 8% to reach 7.8 million tonnes. Capacity continues to rapidly expand in China, with 1.4 million tonnes of new capacity in 2005.

South America

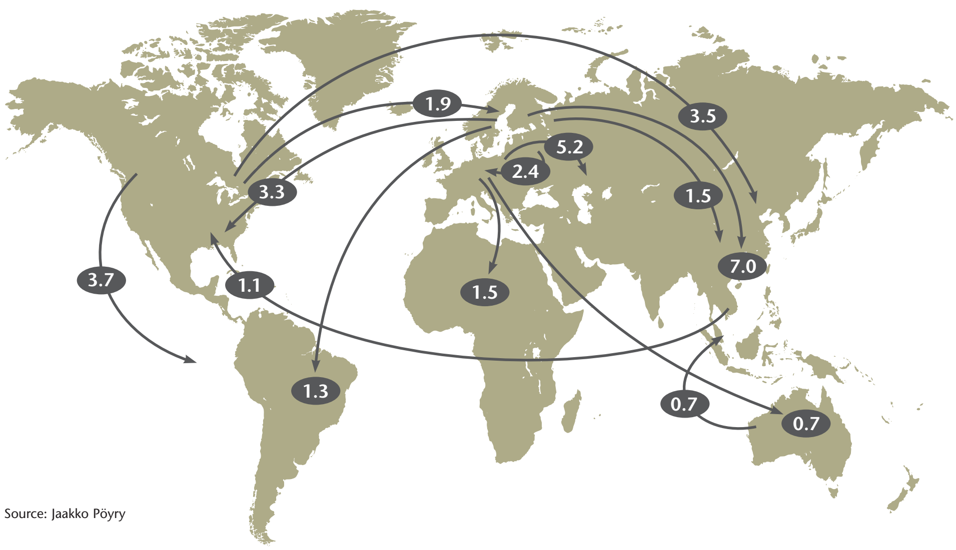
Production of printing and writing paper in South America totalled 4.2 million tonnes, 4% higher than in 2004. Uncoated fine paper is the dominant grade in the region, accounting for three-quarters of total output.

Demand in South America rose 5% to 5 million tonnes, of which the largest market, Brazil, accounted for 1.8 million tonnes.

Demand for newsprint totalled 1.8 million tonnes, 2% up on 2004. Domestic production totalled 0.8 million tonnes, and net imports 1 million tonnes.

Main global trade flows of paper and board

The world trade of paper and board amounts to 112 million tonnes, accounting for 31% of global consumption. The main exporting regions are Central Europe, Nordic countries and North America.



Source: Jaakko Pöyry

Improved asset management and improved performance

Stora Enso Publication Paper offers a complete range of paper for books, newspapers, magazines, directories, and catalogues. The Press Selection portfolio organises products according to specific end-use segments to make selection of paper easier and provide better customer service. Publication Paper has a strong market position in all of its businesses in Europe, as well as worldwide.

Stora Enso Publication Paper's vision is to be its customers' supplier of choice, thanks to efficient and cost-competitive assets, the Press Selection portfolio, and comprehensive customer service. Publication Paper emphasises the importance of continuously improving its operations and product quality.

A global strategy – a global division

Following a review of Stora Enso's organisation in 2005, a new global Publication Paper division was formed, incorporating North American publication paper operations. This change will facilitate the exchange of best practices between European and North American operations and foster mutual collaboration and the development of a global business strategy.

Initiatives to enhance profitability

The measures introduced by Publication Paper as part of the Profit 2007 programme and the Asset Performance Review are aimed at improving the performance and profitability of European operations.

The use of shared services will be increased in administrative areas, such as human resources, accounting, purchasing, logistics, and IT to generate economies of scale and additional synergies. The Kabel and Reisholz mills in Germany and the Düsseldorf office will integrate some of their administration. The Anjala, Kotka, and Summa mills will switch to a common sales and marketing department based in Anjalankoski in Finland.

PM 3 at Langerbrugge Mill will shift from producing SC to SC-B grade, which is made from 100% recovered fibre rather than fresh fibre. As a result of this change, the thermomechanical pulp plant will be closed, reducing energy costs.

"In today's business environment, with rising input costs, such as energy and raw materials, we need to bring our cost level down," says Bernd Rettig,

Asset Performance Review

Mill	Action	Capacity	Grade	Country
Corbehem Mill, PM 3 & PM 4	Planned closure	250 000 t	LWC	France
Wolfsheck Mill	Divestment	155 000 t	Converting from SC to other paper grades	Germany
Summa Mill	Under scrutiny	405 000 t	MF, newsprint, improved newsprint	Finland
Reisholz MIll	Under scrutiny	215 000 t	SC	Germany

LWC=light-weight coated paper, SC=super-calendered paper, MF=machine-finished paper

Senior Executive Vice President, Stora Enso Publication Paper. "This is why we also have to look at the revenue side and go forward with price increases to improve profitability."

Following the Asset Performance Review, Publication Paper plans to close two paper machines and divest one paper mill. The closures will be completed during 2006. In addition, two paper mills, the Reisholz Mill in Germany and the Summa Mill in Finland, have been placed under scrutiny. The final decisions regarding these mills will be taken during 2006.

Restructuring assets for the future

Stora Enso has systematically improved productivity and asset quality over the past four years. The largest project in the division's Asset Restructuring Programme in 2005 was to complete and start up a new SC paper machine at the Kvarnsveden Mill in Sweden in November.

For more information about this project, see the article on page 14.

Stora Enso also completed the rebuild of PM 5 at the Corbehem Mill in France. The rebuild has increased production capacity to 305 000 t/a, and improved productivity and product quality.

The rebuild of PM 26 at the Biron Mill in Wisconsin was among the last projects to be completed as part of the North American Profit Enhancement Programme.

Capturing new growth

Publication Paper's production capacity is concentrated in Europe and North America. New growth markets such as China and South America are becoming increasingly interesting, particularly the Chinese market, which is growing rapidly. As the business environment in China differs from that in Europe, Stora Enso has initiated a joint venture with Shandong Huatai Paper of China to conduct a prefeasibility study on beginning publication paper production in China.

Key figures*	2003	2004	2005	% of the Group
Sales, EUR million	4 505.5	4 621.4	4 675.9	33.4
Operating profit, EUR million	129.0	104.6	193.3	54.1
% of sales	2.9	2.3	4.1	
Operating capital, EUR million	4 173.8	4 335.9	4 451.0	35.8
Return on operating capital, %	3.1	2.4	4.4	
Capital expenditure, EUR million	591.6	492.4	602.9	53.4
Average number of employees	13 454	12 884	12 450	27.0
Market-related production curtailments, 1 000 tonnes	497	240	66	

*excluding non-recurring items and goodwill

1 000 tonnes	Deliveries 2003	Deliveries 2004	Deliveries 2005	Capacity 2006
Newsprint	2 878	3 309	2 954	3 395
Uncoated magazine paper (SC, MF)	1 447	1 548	1 663	2 100
Coated magazine paper (LWC, MWC, HWC, MFC)	2 424	2 424	2 344	2 720
Wallpaper base	39	34	47	65
Total	6 788	7 315	7 008	8 820

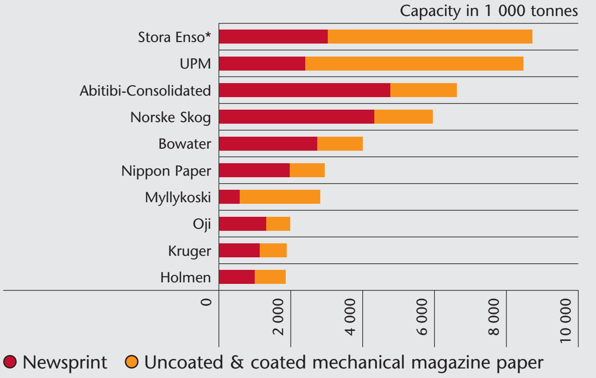
Fresh versus recovered fibre

Publication paper is produced from both recovered and fresh fibre, depending on the quality requirement of the paper grades concerned. Recovered fibre is used mainly for products with a shorter life-cycle, such as newsprint. Fresh fibre will continue to be essential for most types of paper, as fibre quality decreases in the recycling process. Magazine paper is typically produced from fresh fibre.

Access to raw material sources is an important factor in determining mill location. The Langerbrugge Mill in Belgium, for example, is ideally located, as it produces newsprint from 100% recovered fibre, and can source recovered paper easily and rapidly from major European regions. Nordic mills, for their part, are located close to fresh fibre sources and can make cost-effective use of these resources.

Read more about recovered fibre on page 15 of the Sustainability 2005 report.

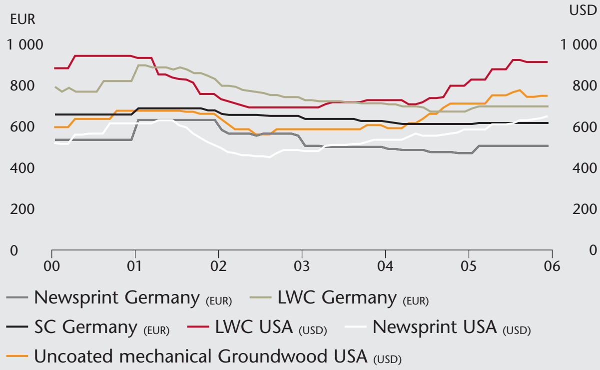
World's leading producers of publication paper



* Stora Enso incl. full capacity of Kvarnsveden Mill's PM 12

Source: Jaakko Pöyry

Publication paper prices in Germany and the USA 2000–2005



Source: PPI This Week, Pulp & Paper Week

Easy identification

The **Newsprint and Book Papers** business area has eight mills in Europe and North America, producing standard newsprint, improved newsprint, and directory and book paper. Stora Enso has a strong position in these markets in Europe, particularly in Germany, the UK, and the Nordic countries.

These grades are used in newspapers and supplements, telephone directories, timetables, and hardback and paperback books. Tinted newsprint grades are used for identifying the sports, business, and political sections of newspapers.

Mass-circulation publications

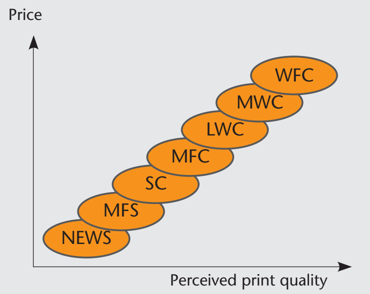
The **Uncoated Magazine Paper and Pulp** business area has paper mills in North America, Germany, Belgium, Sweden, and Finland, and produces machine-finished (MF) and super-calendered (SC) magazine paper. Mills in Belgium and Germany produce SC-B from recycled fibre.

Uncoated magazine paper is used mainly for periodicals and advertising material, such as inserts and flyers. It is also suitable for mass-circulation products, such as TV magazines and catalogues.

Going upmarket

The **Coated Magazine Paper** business area has paper mills in France, Germany, Finland, and North America. These produce coated magazine paper, such as rotogravure and offset products in matt, silk, and glossy grades. General and special-interest magazines are among the most important end-uses for coated magazine paper. Other end-uses include supplements, advertising material, magazine covers, and premium and home-shopping catalogues.

Press Selection



A complete range of publication paper from a single source.

Making choosing paper easier

Stora Enso Press Selection is a complete range of publication paper for newspapers, magazines, catalogues, books, directories, and advertising media. Press Selection products are arranged under categories linked to specific end-use segments in the publishing, retail, and printing industry to make it easier for customers to select the paper best suited for their needs.

The Asset Restructuring Programme carried out in Europe has further strengthened the Press Selection offering. New brands, such as InnoPress and MagniPress Bulky, were launched in 2005, and several existing brands have been enhanced with new quality standards and improved availability.

Meeting customer requirements
Time Inc., a key customer of Stora Enso, comments on their requirements for paper suppliers in the Sustainability 2005 report on pages 32–33.

Investing in new technology for quality

Equipped with a large new paper machine, Kvarnsveden Mill is a major producer of high-quality uncoated super-calendered magazine paper. The mill is located close to good fresh fibre sources and produces grades that benefit from properties of spruce pulpwood. “Meeting our customers’ needs in terms of paper quality is our first priority,” says Lars-Ove Staff, Managing Director, Kvarnsveden Mill.

The new paper machine at Kvarnsveden Mill started up at the beginning of November 2005. This major investment, valued at approximately EUR 450 million, is part of the Asset Restructuring Programme, designed to increase the long-term competitiveness of Stora Enso’s assets and meet customers’ growing quality demands. Featuring the latest technology, the new paper machine (PM 12) produces high-quality, uncoated super-calendered magazine paper (SC) – and strengthens Stora Enso’s position on the SC paper market. The consumption of SC paper in catalogues and retailing is rapidly increasing.

The start-up of PM 12 coincides with the switchover of PM 3 at Langerbrugge Mill from high-quality SC to exclusively SC-B paper and the divestment of Wolfsheck Mill, where PM 5 will cease production of SC paper.

Targeting new markets

Thanks to its new paper machine, Kvarnsveden will be able to offer customers a wider product range and flexibly adjust to market developments.

The latest technology and highly trained operators will guarantee high-quality production on Kvarnsveden's PM 12.

The new calendering technology incorporated in PM 12 will enable the mill to enter new end-use areas and markets that have been traditionally dominated by coated grades.

Customers currently include publishers, retailers, and printers, mainly in Europe, but with its new capacity the mill will be able to target overseas markets, such as North America, Asia, and South America. The plan is to deliver some 15% of the mill's SC output to customers outside Europe.

Finely-tuned logistics

Kvarnsveden's logistics solutions have been developed to meet customer demands in terms of both flexibility and frequency. The mill is part of Stora Enso's Northern European Transport Supply System (NETSS), a joint transport supply system for shipping Stora Enso products on a frequent basis from Nordic mills to local distribution centres close to customers in Continental Europe and the UK. The advanced information technology incorporated in NETSS makes it possible to monitor each roll of paper from the time it leaves the mill to its arrival at the end-customer.

Read more about NETSS in the Sustainability 2005 report on page 19.

Leveraging the Group's expertise

Personnel from Stora Enso units in Finland, Germany, Belgium, France, and the USA took part in the project to provide expertise, start-up support, and share best practices. The success of the start-up on schedule highlights the project management skills and technical know-how the team brought to the project.

Training and retraining were high on the agenda at Kvarnsveden during the project. The project created job opportunities for new employees and opportunities for job rotation within the mill. As the new paper machine utilises the latest technology, thorough internal and supplier training was essential for its operators.

Kvarnsveden Mill

Kvarnsveden Mill is located in central Sweden. The mill was founded in 1900 and today has four paper machines, with an annual production capacity of approximately 910 000 tonnes of newsprint, improved newsprint, and uncoated magazine paper. The mill uses spruce pulpwood and is located close to abundant raw material sources. PM 9, which produced 135 000 tonnes of improved newsprint, was shut down when PM 12 was started up. Kvarnsveden Mill has 970 employees, and is ISO 14001-certified and EMAS-registered.

PM 12 – A massive new machine

To build a new paper machine with an annual production capacity of 420 000 tonnes is a huge project. The paper machine operates at 1 850 metres per minute, with a paper width of 10.44 metres. The building is 300 metres long, 70 metres wide, and 30 metres high.

When the project was at its busiest, it employed around 1 200 people. The project also included replacing an existing chipping line, expanding filler and kraft handling systems, building a new pulp line suitable for magazine paper (TMP-SC), installing a new wrapping machine, and extending the site's wastewater treatment plant.

www.storaenso.com/kvarnsveden

Cost-efficient production and superior customer service

Stora Enso's Fine Paper division produces graphic and office paper at its mills in Europe, the USA, and China. The value chain extends from plantations to pulp and paper production, sheeting, and merchant operations.

Stora Enso Fine Paper's strategic objective is to be the leading and most profitable fine paper supplier globally. The division will achieve this goal through a mix of cost-efficient production and superior customer service, and by winning and retaining significant market share in target segments and regions.

A new global division

As part of a review of its organisational structure during 2005, Stora Enso brought together all its fine paper operations, including those in the USA and China, and its paper merchant operations, to form a global Fine Paper division. The reorganisation will especially improve the strategic business management of the Graphic Paper business area's global production network.

Measures to improve performance

The Profit 2007 programme and the Asset Performance Review have resulted in a series of measures to improve the performance and profitability of Fine Paper division's European operations. As part of Profit 2007, Fine Paper will focus primarily on two areas: improving pipeline efficiency and reducing administrative and other fixed costs. Improving pipeline efficiency will involve taking a close look at current sales practices and developing them, and improving the supply chain between mills and merchants.

As part of the Asset Performance Review, Fine Paper is planning to close one paper machine and divest one paper mill. The possible divestment of Celbi Pulp Mill is also being assessed. The mill is performing well, but following the start-up of Veracel Pulp Mill, the Group's pulp balance has changed, and pulp production for captive use is now larger than needed. These measures will be completed during 2006. In addition, two paper mills are under scrutiny. The final decisions about possible actions on these will be taken during 2006.

The Profit Enhancement Programme in North America was completed in 2005

Asset Performance Review

Mill	Action	Capacity	Grade	Country
Varkaus Mill, PM 1	Planned closure	95 000 t	WFC	Finland
Grycksbo Mill	Divestment	280 000 t	WFC	Sweden
Celbi Mill	Possible divestment	305 000 t	Short-fibre pulp	Portugal
Berghuizer Mill	Under scrutiny	235 000 t	WFU	Netherlands
Uetersen Mill	Under scrutiny	270 000 t	WFC and coated specialities	Germany

WFU=wood-free uncoated, uncoated fine paper, office paper WFC=wood-free coated, coated fine paper, graphic paper and the asset quality of Stora Enso's coated fine paper machine base is now among the best in North America.

Focusing on multi-coated grades

Stora Enso has decided to streamline its coated fine paper product portfolio by focusing on multi-coated grades. The divestment of Grycksbo Mill in Sweden and the planned closure of PM 1 at Varkaus Mill in Finland are in line with this decision, and will complete Stora Enso's exit from the single-coated segment.

High-quality eucalyptus pulp

Eucalyptus pulp from captive production in South America will be the main raw material for Stora Enso's coated fine paper units in Europe in the future. Stora Enso's share of the output from Veracel Pulp Mill will go to its fine paper mills in Northern Europe and China, which will further enhance the competitiveness of these mills.

Read more about these developments on page 19.

A fast-growing market

China is a massive and fast-growing market, with good potential for Stora Enso's products. The Group completed the modernisation of its fine paper machine in Suzhou in 2005, increasing the mill's capacity (including converting) to 240 000 tonnes of multi-coated fine paper, of which nearly all is sold locally. Demand for coated fine paper in China is expected to continue growing rapidly in the future.

Accessing a large customer base

Cost-competitive, high-quality production, superior customer service, and an extensive distribution network are especially important in the fine paper business. With this in mind, Stora Enso has strengthened its merchant business, Papyrus, over the past two years.

Three major acquisitions in Europe since 2004 have further strengthened the Company's position, and Papyrus is now Europe's second-largest paper merchant.

Read more about the merchant business on page 18.

More from digital printing

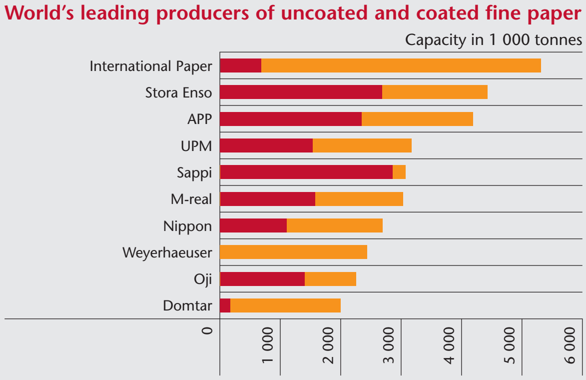
Anyone with a need for high-quality, rapid, customised, and short-run documents – such as brochures, folders, invitations, and small-circulation magazines – can benefit from digital printing technology. Digital printing also supports the distribute-and-print model, for distributing material electronically and printing near the point of use. Colour copying and direct printing from digital sources is developing rapidly, and the resolution and speed of desktop and network printers are increasing all the time. New machinery is placing new demands on paper properties such as improved feel, appearance, and print performance. Stora Enso's digital printing lab in Imatra in Finland is a key resource in developing technical expertise in this area, and ensuring that Stora Enso Fine Paper's office papers are suitable for the full range of digital printing needs.

Key figures (excluding Merchants)*	2003	2004	2005	% of the Group
Sales, EUR million	2 760.6	2 668.8	2 690.3	18.1
Operating profit, EUR million	138.9	54.5	62.2	17.4
% of sales	5.0	2.0	2.3	
Operating capital, EUR million	2 781.6	2 795.2	2 752.1	22.2
Return on operating capital, %	4.7	1.9	2.2	
Capital expenditure, EUR million	175.7	180.6	115.9	10.3
Average number of employees	8 274	7 758	7 637	16.5
Market-related production curtailments, 1 000 tonnes	142	28	19	

*excluding non-recurring items and goodwill

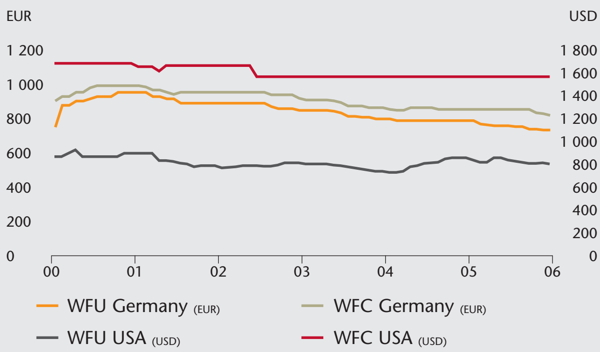
1 000 tonnes	Deliveries 2003	Deliveries 2004	Deliveries 2005	Capacity 2006
Office (uncoated) paper	1 347	1 393	1 344	2 090
Graphic (coated) paper	2 066	2 203	2 177	2 315
Total	3 413	3 596	3 521	4 405

World's leading producers of uncoated and coated fine paper



Source: Jaakko Pöyry

Fine paper prices in Germany and the USA in 2000–2005



Source: PPI This Week, Pulp & Paper Week

More than 65 000 customers benefit from the time- and cost-saving services that Papyrus offers.

A global coated fine paper business

Graphic Papers is the most global business in the Stora Enso Fine Paper division, with mills in the USA, Europe, and China. Most of the pulp used by these mills comes from Stora Enso's integrated pulp mills. Units in Northern Europe and China are also supplied from Veracel Pulp Mill in Brazil. A significant proportion of products are distributed through the Papyrus network.

Stora Enso's main markets for these products are Europe, North America, and China.

Stora Enso's range of coated fine paper (graphic paper) is tailored to meet the high-quality printing needs of printers and publishers. Multi-coated graphic paper is used in art books, annual reports, and upmarket magazines and catalogues.

Meeting European demand

The **Office Papers** business area covers production of copy paper and envelope, writing, and stationery paper. This business focuses on Europe, and distributes part of its output through the Papyrus network.

Uncoated fine paper (office paper) meets the rapidly changing and highly demanding needs of modern offices. Products include document printing paper, digital paper, envelope paper, business forms, and paper used in school notebooks and writing pads.

Expanding in the European merchant business

Stora Enso's paper merchant organisation, **Papyrus**, has been expanding its business rapidly in recent years and improving its geographical coverage of European markets.

The vision is to take the lead in the industry and be recognised as the merchant that provides the highest customer value – by offering an optimum product range, efficient distribution, and superior customer service.

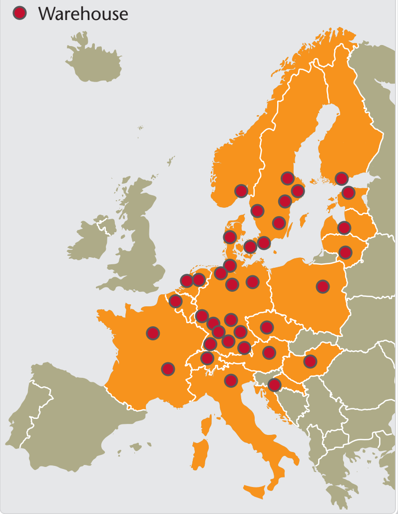
Paper merchants such as Papyrus are playing an increasingly important role in the value chain, as they link productivity-focused paper mills upstream with communication-oriented end-users downstream. While providing valuable customer input for Stora Enso, Papyrus operates as an independent business area to ensure that it serves all its suppliers and customers equitably.

Key facts about Papyrus

- sales in 2005: EUR 478.5 million
- personnel at year-end: 3 300
- 45 warehouses
- 65 000 customers in 19 countries

www.papyrus.com

Papyrus' presence in Europe



Oulu and Veracel begin working together

Veracel Pulp Mill, the world's largest single-line pulp mill, started sustainable production of eucalyptus pulp in May 2005. It exemplifies the emerging role of plantations in Stora Enso's fibre strategy, and provides cost-competitive, high-quality raw material for a range of the Group's fine paper products.

The start-up of Veracel Pulp Mill went well, and the facility came on stream two months ahead of schedule. During its first year of production, the mill produced about 467 200 tonnes of pulp. Stora Enso's share, 50% of the output was used mainly by the Group's Oulu and Suzhou fine paper mills. Veracel is a joint venture between Stora Enso and Aracruz Celulose.

Important for Oulu

Eucalyptus fibre is ideally suited for fine paper production, as it offers excellent properties in terms of enhanced printability and printing quality. Oulu Mill in Finland received its first shipment of eucalyptus pulp from Veracel in August 2005. The initial 4 000 tonnes of pulp were used in test runs on PM 7. Fine paper experts from Oulu specified the properties for the pulp from Veracel to be as close as possible to that previously sourced from Celbi Pulp Mill. The test results were very good, and there were no significant differences between the two pulps. The consistent quality of pulp from Veracel will help Oulu Mill retain the high quality of its output.

Increased volumes of eucalyptus pulp

Integration of Veracel pulp with production at Oulu is part of Stora Enso's plan to replace other short-fibre pulp with eucalyptus pulp from Veracel for producing coated fine paper in Europe. Oulu Mill has used solely eucalyptus pulp from Veracel since October 2005. Going forward, the plan is to increase the use of eucalyptus pulp on both paper machines.

Pulp supplied by Veracel to Oulu Mill is cost-competitive, despite the long distance between Brazil and Finland.

Benefits from joining NETSS

The pulp from Veracel is cost-competitive, despite the long distance between Brazil and Oulu Mill in northern Finland. Oulu Mill plans to join Stora Enso's Northern European Transport Supply System (NETSS) in mid-2006. The system uses Stora Enso Cargo Units (SECU) as the main carrier for transporting Stora Enso's products from Nordic mills to local distribution centres in Continental Europe and the UK. On their way from Oulu to Continental Europe, SECUs will be loaded with fine paper and will carry eucalyptus pulp on the return trip, eliminating unnecessary transportation of empty units. This solution will ensure frequent and regular pulp shipments to Oulu Mill three times a week and will streamline warehousing operations as well.

Oulu Mill

Oulu Mill has an annual production capacity of 1 015 000 tonnes of fine paper on two paper machines, and has about 800 employees. The mill's products are used in high-quality publications, such as annual reports, brochures, marketing materials, and art and illustrated books.
www.storaenso.com/oulu

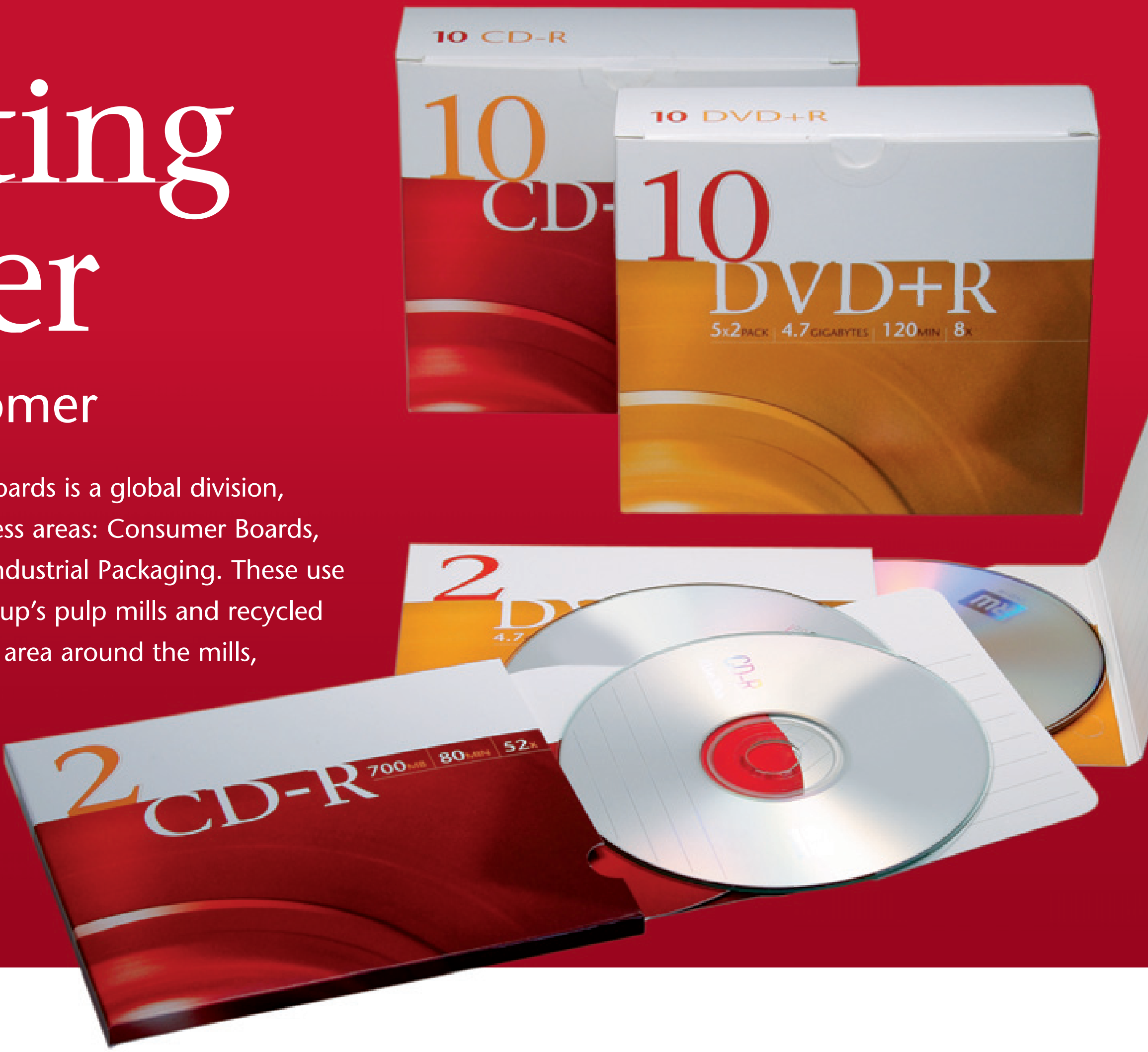
Veracel Pulp Mill

Veracel Pulp Mill has an annual capacity of 900 000 tonnes of bleached eucalyptus pulp and is owned by Stora Enso and Aracruz Celulose S.A. Both shareholders own 50% of the company's equity and are entitled to 50% of the mill's output. The project, including plantations, the mill, and its infrastructure, involved a total investment of some USD 1.2 billion. Veracel is reported as an associated company in Stora Enso's financial statements.
www.veracel.com.br

Getting closer

to the customer

Stora Enso Packaging Boards is a global division, comprising three business areas: Consumer Boards, Speciality Papers, and Industrial Packaging. These use fresh fibre from the Group's pulp mills and recycled fibre collected from the area around the mills, in line with Stora Enso's recycling strategy.



Stora Enso Packaging Boards is committed to being the supplier of choice for its customers. Operating across the entire value chain, from pulp production to recycling, enables Packaging Boards to offer customers secure price and supply stability, and long-term contracts that help guarantee reliability and consistent product quality. World-class innovation and environmentally and socially sound operations have given the business a large share of its targeted markets and product segments. This strategy provides a solid financial return for shareholders and builds the future development of the business. A broad and diversified product portfolio helps reduce fluctuations in financial performance and reduces the business' risk exposure.

Targeted investments

Sweden

The major Energy 2005 investment project at the Skoghall Mill continued during 2005. This is designed to further modernise operations at Skoghall and ensure optimally cost-effective, low-emission production over the short and long term. Oil consumption at the mill will be reduced by about 60 000 m^3, and electricity self-sufficiency will increase from 15% to 40%. Costing EUR 211 million, the project is scheduled for completion in 2006.

Read more about the Energy 2005 project at www.storaenso.com/skoghall

To improve long-term competitiveness, board machine 2 (BM 2) at the Fors Mill in Sweden will be upgraded and modernised. One of the boilers at the site will also be modified to enhance the mill's energy supply by replacing oil with bio-fuel. The folding boxboard production capacity of BM 2 will increase slightly, by about 13 000 t/a. Capital expenditure on the project, which is scheduled to start in 2006 and be completed in 2007, will amount to EUR 35 million.

Poland and Russia

In Poland, investment projects at the corrugated box plants in Mosina and Tychy were completed at the end of the year.

Asset Performance Review

Mill	Action	Capacity	Grade	Country
Hammarby Mill	Closure	35 000 t	Plastic coating	Sweden
Stevens Point Mill, PM 31	Closure	25 000 t	Coated specialities	USA
Pankakoski Mill	Divestment	95 000 t	FBB, WPB, SBS	Finland

FBB=folding boxboard, WPB=wood pulp board, SBS=solid bleached sulphate board

The Mosina plant is Stora Enso's first unit in Poland to produce micro-flute corrugated board. The Tychy project involved rebuilding and modernising facilities and systems dating from 1996, expanding the plant's premises, and installing a new corrugated board machine.

Stora Enso also decided to strengthen its leading position in the recovered paper business in Poland in 2005 by investing in expanded recycling operations. This is intended to improve the availability of raw material supplied to locations such as Stora Enso's Ostroleka Mill in Poland and the Sachsen Mill in Germany.

In Russia, the corrugated board plant in Arzamas was expanded, by installing new converting machines and expanding the plant's premises.

Moving closer to the customer

Successful customers are one of Stora Enso Packaging Boards' key strengths.

"Our aim is to grow with our key customers and focus on growth opportunities in new markets, especially in Russia and also China in the long term," says Kai Korhonen, Senior Executive Vice President, Stora Enso Packaging Boards.

Read more about the corrugated board business in Russia on page 23.

Innovating for greater value

Stora Enso has prioritised developing new packaging systems and products in close co-operation with its customers as an important way of moving closer to the consumer in the value chain. Stora Enso Consumer Boards is developing a number of new packaging concepts and business models with its partners in response to market trends and consumer preferences – focusing on food, media, and pharmaceutical solutions, as well as digital printing applications. The innovations and new technologies being developed will further enhance the competitiveness of packaging board and renewable fibre over alternative materials.

Read more about innovative packaging solutions in the Sustainability 2005 report on pages 30–31.

Improving profitability

Packaging Boards' short-term profit improvement actions include two closures and one divestment linked to the Asset Performance Review. The closures will be completed during 2006.

All three business areas have identified profit improvement measures as part of the Profit 2007 initiative, including production-related cost savings and improvements in the sales and production mix.

As part of its profit enhancement efforts in Finland, Stora Enso Packaging Oy has decided to reorganise its corrugated board production at the Lahti and Heinola plants. The existing corrugated board machine at Heinola will be replaced with a new, wider machine during 2006. One of the two corrugated board machines at Lahti will be modernised, and the other shut down during 2007. In addition, some converting machines will be relocated at the Lahti and Heinola plants. The reorganisation plan includes a EUR 14 million investment.

New working methods were implemented at the Lahti and Heinola plants following the signing of more flexible outsourcing contracts at the end of the year.

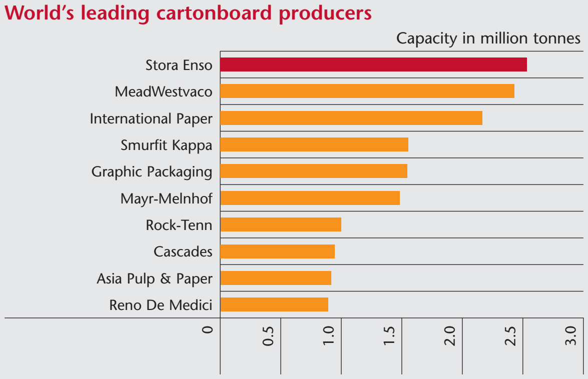
These changes will have a positive impact on the productivity and competitiveness of the units in question.

Key figures*	2003	2004	2005	% of the Group
Sales, EUR million	2 982.9	3 053.4	3 190.2	23.0
Operating profit, EUR million	284.2	271.3	220.0	61.5
% of sales	9.5	8.9	6.9	
Operating capital, EUR million	2 853.1	3 096.6	2 968.0	23.9
Return on operating capital, %	9.8	9.0	7.3	
Capital expenditure, EUR million	214.3	179.2	237.6	21.0
Average number of employees	10 916	10 860	12 454	27.0
Market-related production curtailments, 1 000 tonnes	143	96	56	

*excluding non-recurring items and goodwill

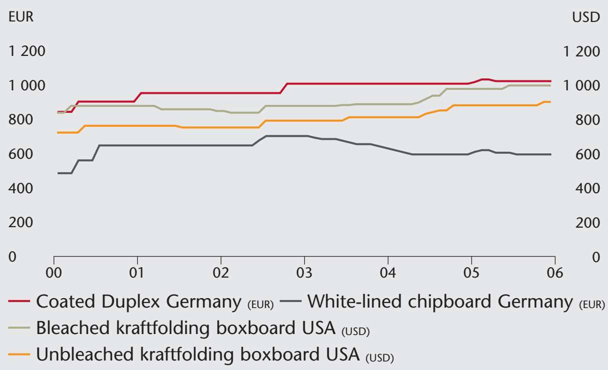
1 000 tonnes	Deliveries 2003	Deliveries 2004	Deliveries 2005	Capacity 2006
Packaging board and paper	3 350	3 499	3 621	4 200

World's leading cartonboard producers

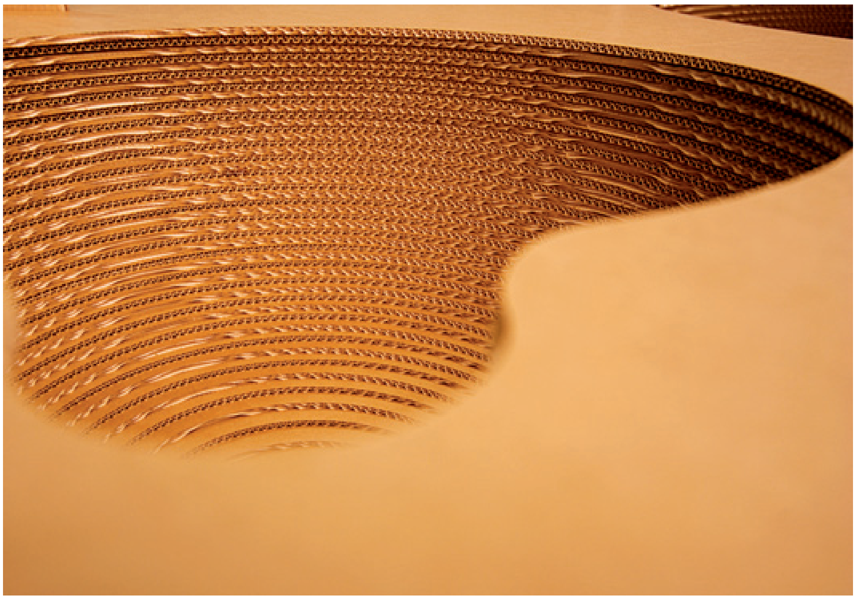


Source: Jaakko Pöyry

Packaging board prices in Germany and the USA 2000–2005

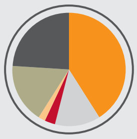


Source: PPI This Week, Pulp & Paper Week



Corrugated board is a versatile material that can be used for packaging and design.

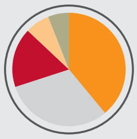
Global packaging market by end-use



Food	41%
Beverages	13%
Healthcare	3%
Cosmetics	2%
Other consumer end-uses	17%
Industrial/bulk packaging	24%

Source: Pira International

Global consumer packaging market by material



Paper and board	39%
Plastics	31%
Metal	17%
Glass	7%
Other	6%

Source: Pira International

Leading producer of consumer packaging board

Stora Enso **Consumer Boards** produces a large selection of packaging board for a multitude of consumer goods, and a variety of polymer coatings. Products include liquid packaging board, carton board, cigarette board, food service board, graphical board, and complete packaging solutions.

World's largest producer of speciality paper

Five paper mills, and state-of-the-art paper machines, make Stora Enso the world's leading producer of **speciality paper** for a variety of applications. Flexible packaging papers include grades designed for protecting, transporting, and identifying food products. Technical paper is produced for the Variable Image Print (VIP) and pressure-sensitive markets. Label papers include wet-strength and non-wet-strength grades.

Wide range of industrial packaging board

Industrial Packaging produces corrugated packaging, kraft paper, and cores.

Stora Enso's product range includes corrugated packaging for consumer packaging, food and non-food packaging, transport packaging, display stands, corrugated sheets, paper roll and sheet packing systems, and packaging systems and machines.

The industrial papers include SC fluting, laminating paper, testliner, RCP fluting, sack paper and paper sacks, and wrapping paper – produced in Finland, Poland, and Serbia.

Coreboard and cores and tubes for industrial use, used by manufacturers of paper and board, textile yarn, plastic film, flexible packaging, and metal foil are produced by Corenso United Oy Ltd., one of the leading producers in the industry. Recyclable, environmentally sound end-products are a key part of the company's business, and all Corenso's products are recyclable.

Combining these three business areas under one management increases efficiency by creating and leveraging synergies in raw material integration, production, and administration.

Generating successful business in Russia

Stora Enso's corrugated board business in Russia is experiencing good growth. Demand for consumer goods and transport- and consumer-related packaging is increasing strongly, and the Group has made preliminary plans to expand its business in Russia on the back of this development. Despite growing competition, Stora Enso remains the market leader in corrugated packaging board in the Moscow region.

Stora Enso has two corrugated packaging plants in Russia: the Balabanovo plant, located some 100 kilometres south-west of Moscow, and the Arzamas plant, around 400 kilometres east of Moscow. Both units produce the same grades, although Arzamas specialises in larger packaging. The two plants produced a total of 215 million m² of corrugated packaging board during 2005, and had 450 employees.

Close to the market

The majority of Stora Enso's corrugated board output in Russia is sold to customers based in the Moscow region. The Balabanovo plant also sells products elsewhere in European Russia, such as the St. Petersburg area, while the Arzamas plant sells to customers in the Nizhni Novgorod and Volga regions. As corrugated board is normally not transported long distances, production needs to be located close to where the board is used. Some 70% of sales in Russia come from customers in the food, beverage, and cigarette industries, representing both international and Russian brands.

The secret of our success

"Our strengths in Russia are well-trained Russian personnel, efficient processes, and modern production facilities," says Veli-Jussi Potka, Senior Vice President, Industrial Packaging. "We also offer our customers short delivery times, product innovations, and high quality."

Entering the Russian market

Stora Enso decided to build its first corrugated board plant in Russia at the end of the 1990s. Due to the relatively low initial investment involved, the risk of entering the market was seen as limited. The decision was also influenced by the fact that growth opportunities in the corrugated packaging market in Finland and Sweden had levelled off, and the Group had already experienced successful expansion in the Baltic countries.

The first corrugated board plant started operations in Balabanovo in 1998, and was followed by the Arzamas plant in 2004. Both plants have been expanded since the initial investment. Continued growth in the corrugated board business has led to further investments in other Central and Eastern European countries, such as Hungary and Poland.

Future plans

The Russian market is growing by an average of 8% a year, and the Moscow region is expanding even faster. As the demand for high-quality packaging is continuing to rise, the Group is exploring additional growth opportunities in the corrugated packaging business in Russia.

Demand for consumer packaging is increasing strongly in Russia. Stora Enso is the market leader in corrugated packaging board in the Moscow region.

Enhancing efficiency

in the supply chain

Stora Enso Forest Products focuses on the efficient supply and use of wood raw material, adding value for Stora Enso's internal and external customers. Integrated procurement and optimised utilisation of sawlogs and pulpwood supports Stora Enso's paper, packaging board and wood products core businesses and ensures the Group's future competitiveness.

Maximum synergy from integrated wood flows

The Forest Products division comprises Stora Enso Timber and Wood Supply. Stora Enso Timber converts logs into competitive wood products, and serves its global customer base through its own marketing network. Wood Supply is responsible for Stora Enso's global wood fibre strategy and wood raw material sustainability issues. It manages wood deliveries to Stora Enso's mills in Europe and facilitates co-operation between all the Group's wood supply units.

Stora Enso Forest Products aims at maximising the synergy benefits resulting from integrated wood flows to the Group's sawmills and pulp and paper mills. Procurement from cost-competitive and sustainable sources is important as wood raw material accounts for a significant part of Stora Enso's costs.

Wood Supply and Stora Enso Timber made important organisational changes during 2005 to meet the demands of the changing business environment.

Improving profitability

Stora Enso's Profit 2007 programme and the Asset Performance Review have both affected Forest Products. Profit improvement measures in Stora Enso Timber have begun with a decision to divest Linghed Sawmill in Sweden. Veitsiluoto Sawmill in Finland has been idle since mid-2005, and the mill's future is now under review. Stora Enso Timber has also taken decisions to reduce production volumes and personnel at some other sawmills. These actions aim at balancing raw material costs and availability, as well as overhead costs, with the sales price potential of the wood product market. Further actions will involve productivity improvements, more efficient logistic solutions, reduction of fixed costs, and further finetuning of the organisation.

Wood Supply aims at achieving considerable cost savings by 2007. These are to be realised through a number of specific projects addressed to logistics and other operations throughout the wood supply chain. In addition, Wood Supply will continue to streamline its organisational structure and investigate outsourcing opportunities.

Asset Performance Review

Mill	Action	Capacity	Grade	Country
Linghed Sawmill	Divestment	40 000 m³	Sawn softwood	Sweden

Wood Supply: Expanding in new growth markets

Wood markets in Northern Europe remain tense, with the forest taxation change in Finland bringing an additional element of uncertainty. In the near future, eucalyptus pulp flows from the Veracel Pulp Mill will also have a significant impact on birch wood consumption and wood markets in Europe

Read more about Veracel on page 19.

Stora Enso has continued to expand its wood procurement in Russia and Central Europe. In China, Stora Enso is progressing with plantation development in Guangxi. In South America, the Group has acquired land in Brazil and Uruguay with a view to establish new fast-growing plantations.

In Russia, Wood Supply has invested in improving its control over the supply chain. This has involved acquisitions of Russian logging companies that have long-term agreements with the Russian government. These logging companies now have the capacity to supply about 1.2 million m^3 of wood, or nearly 15% of total wood procurement in Russia.

Read more about wood procurement in the Sustainability 2005 report on pages 12–13.

Stora Enso Timber: Adding value to wood

Stora Enso Timber supplies sawn and processed softwood products to the construction and joinery industries and the wood products trade. Timber frame construction products include standardised solid and glued posts, beams, studs and joists, usually made from spruce. Joinery customers manufacturing windows, doors, and furniture prefer pine. Both species are used in planed boards for interior use and exterior cladding.

Stora Enso Timber is a global player in the fragmented wood product market. The key factors driving this market include developments in interest rates and national programmes affecting building activity, standards covering wooden frame structures, as well as developments in the DIY (do-it-yourself) market.

Focusing on mass-customised, higher value-added products – and reducing the role of standard bulk products – represents an integral part of Stora Enso Timber's strategy, and is designed to reduce the volatility of the business and increase profitability, by offering more complete product and service solutions to customers.

Storm hit Nordic region. *"Gudrun" hit Southern Sweden in January 2005. The storm is estimated to have felled up to 70 million m^3 of timber which corresponds to almost the entire annual harvest in Sweden. Storm damages were also seen in the Baltic countries.*

Focus on performance

"Our aim is to be the world's best wood product company, and the leading wood supplier worldwide. We are addressing profitability issues through reorganisation, consolidation, and by continuing to move into new growth markets," says Elisabet Salander Björklund, Senior Executive Vice President, Stora Enso Forest Products.

Wood Products

Stora Enso Timber is an international wood products company that supplies product and service solutions to wood product industries and the trade worldwide. Stora Enso Timber has annual net sales of EUR 1 588.3 million, and an annual production capacity of 7.7 million m^3 of sawn wood products, including 3.3 million m^3 of value-added products. The company employs about 5 000 people at 27 production sites, of which 21 manufacture value-added products, in 10 European countries and sales and distribution companies around the world.

Stora Enso Timber focuses on mass-customised, value-added products for industrial end-uses. These include glue-laminated, stress-graded, and finger-jointed products and components for the construction and joinery industries. A wide range of sawn and processed wood products is supplied to timber retailers, merchants, and importer-distributors.

Wood Supply

Wood Supply is responsible for Stora Enso's global wood fibre strategy and wood raw material sustainability issues. The unit manages the wood deliveries to Stora Enso's mills in Europe and facilitates co-operation between the Group's wood supply units. Wood Supply consists of five business units: Baltic, Continental Europe, Finland, Russia, and Sweden. With 3 415 employees, Wood Supply procured more than 54.5 million m^3 of wood in 2005, of which over 39.9 million m^3 were used by Stora Enso's own mills. Turnover totalled EUR 2 501.9 million.

Key figures for Wood Products*	2003	2004	2005	% of the Group
Sales, EUR million	1 400.0	1 566.8	1 588.3	11.2
Operating profit, EUR million	26.5	34.7	-3.1	-0.9
% of sales	1.9	2.2	-0.2	
Operating capital, EUR million	638.7	687.5	668.5	5.4
Return on operating capital, %	5.1	5.2	-0.5	
Capital expenditure, EUR million	141.9	68.1	44.5	3.9
Average number of employees	4 625	4 856	5 081	11.0

*excluding non-recurring items and goodwill

1 000 m^3	Deliveries 2003	Deliveries 2004	Deliveries 2005	Capacity 2006
Sawn wood products	5 822	6 664	6 741	7 660
of which value-added wood products	1 406	1 803	2 056	3 265

Key figures for Wood Supply	2003	2004	2005
Internal deliveries, million m^3 sub	39.3	41.6	39.9
External deliveries, million m^3 sub	10.2	10.1	12.2
Average number of employees	2 599	3 157	3 415

Meeting the needs of the US construction market – from the Czech Republic

Stora Enso Timber's sawmills in Plana and Zdirec in the Czech Republic are strategically important for Stora Enso Timber as cost-competitive manufacturing sites in Central Europe. Both sawmills are located close to good raw material resources. Plana produces standardised building materials, mainly for the North American market, including studs and finger-jointed and machine stress-rated materials for the house-building industry. Zdirec's focus is on manufacturing premium-quality framing and roofing materials for European customers.

Adding value to the customer experience

Products are sold in the USA through Stora Enso Timber's sales offices in Portland and Atlanta, and delivered through stockholding and distribution operations in various ports on the East Coast. Stora Enso Timber's main markets in the USA include North and South Carolina, Texas, and Alabama. The customer base includes wholesale distribution companies, industrial end-users, as well as retail customers.

The product portfolio of the Plana Sawmill has been developed and tailored to suit the US and other markets where similar standard products are used in construction, such as Australia, the UK, Japan, and South-East Asia. "We constantly review our product and service offering against the needs of our customers. Our local representatives link these needs with our production capability and delivery potential. We can add value for our customers by offering more refined products and by optimising product and service quality to meet their needs," says Peter Kickinger, Executive Vice President, Stora Enso Timber.

Good customer relationships

Sherwood Lumber Corporation, a Long Island-based wholesale distributor with several port facilities handling lumber and plywood, is one of Stora Enso Timber's customers for stud products in the USA.

"Our relationship and co-operation with Stora Enso have been excellent. We are extremely satisfied with their shipping schedules, documentation, and the level of service and consistency of the loadings coming out of Europe," says Andrew Goodman, Sherwood Lumber's President & CEO.

Sherwood Lumber has supplied its retail customers in the Northeast with Stora Enso stud products for four years. Stora Enso studs are certified by the American Lumber Standard (ALS) and have established a reputation as a premium product.

"There is a high recognition of the Stora Enso brand in the marketplace. Stora Enso's product quality is highly regarded among our customers, and they insist on Stora Enso products," according to Sales Director Dave Gaudreau at Sherwood Lumber.

People performance

Managing change and ensuring continuous improvement are essential tasks for Stora Enso, particularly during a time when the emphasis Group-wide is on improving profitability and performance. Stora Enso's human resources strategy focuses on ensuring that the Group has the right competences in its organisation to achieve operational excellence and drive its vision of becoming the world's leading forest products company forward.

Strategy in action

"Continuous improvement and change are a natural part of life at Stora Enso. We have always been moving forward, changing direction and the way we do business. Managing our organisation for tomorrow's needs is a major management task and responsibility," says Christer Ågren, Senior Executive Vice President, Corporate Services.

People management and employee contribution are key factors in turning the Group's vision into reality. By recruiting skilled and motivated people, developing their future potential, and establishing a corporate culture that prioritises performance and continuous development, Stora Enso aims to build a forward-looking, competitive organisation.

The key success factors in Stora Enso's overall human resource strategy and the individual HR strategies of all its units, divisions, and country organisations, include performance culture (motivation), competence development (skills), and attracting and retaining talent (people magnet). Motivated employees, developing skills, and being a respected and responsible employer are especially important. Stora Enso measures and monitors these key success factors to ensure that the Group's human resources strategy remains in line with its vision.

"Creating and fostering a high-performance culture as a part of profitability improvement programme is a challenge for our change management capabilities. How well we succeed will depend on the effectiveness of our organisation and the performance and contribution of all Stora Enso people," continues Christer Ågren.

Stora Enso's high-performance work organisation

Stora Enso's High-Performance Work Organisation (HPWO) was introduced in Stora Enso's North American organisation as a result of the Profit Enhancement Programme there. By emphasising, measuring and rewarding performance, the HPWO approach is designed to develop an organisation that consistently outperforms competitors and creates a motivating work environment for employees.

HPWO is based on five basic pillars: leadership development, workforce skill development, strategic planning and continuous improvement systems, short-term directed improvement, and flexible support structures and systems. Recent surveys show that employee reaction to the approach has been positive, and the HR management team is assessing how the HPWO approach can be extended elsewhere in Stora Enso.

Building competence

Go! is an international rotation programme targeted for developing talents at an early stage in their career by giving participants two-year assignments in new roles at mills, sales offices, and merchants abroad. Designed to increase mobility within the Group, the programme is intended to make cross-organisational moves within Stora Enso easier for employees. The first participants began their placements in November 2005 in various locations across Europe and North America.

Attracting talent in China

Stora Enso provides international internship opportunities for Chinese students. The Group has also invested in building a good employer image in China locally, by establishing links with top Chinese universities in the pulp and paper field to help ensure the recruitment of future talent. Other activities include supporting local technical schools, organising activities such as Open Family Days, and sponsorship.

Redundancies will be unavoidable

Profit 2007 programme, announced in October 2005, has identified personnel reductions totalling some 2 000, half covering white-collar and half blue-collar staff. Just over half of these are expected to take place in the Nordic countries, and the rest elsewhere in Europe. The Asset Performance Review, also announced in October 2005, will potentially affect some 2 300 personnel.

In handling these redundancies, Stora Enso will follow a consistent approach, tailored to the legal requirements and redundancy practices of the countries in which it operates. To ensure the process is handled as responsibly and ethically as possible, Stora Enso has introduced corporate-wide guidelines for workforce reductions.

Read more about the guidelines in the Sustainability 2005 report on page 27.

Continuous development and improvement are high on the agenda

The need to develop employee skills and motivating staff is crucial to the future success of the Group, and underpins the Stora Enso Business Excellence Guide 2005, a strategic improvement tool that establishes the framework for continuous improvement and serves as the Group's strategic change management system. The Group's success is directly linked to how well it succeeds in getting all employees to perform at the top of their ability.

Leadership

In addition to financial goals, Stora Enso's leadership practices emphasise the importance of developing the competitiveness of the organisation today so that it can deliver results tomorrow. Our ability to achieve our vision and strategic targets is highly dependent on the way we lead and manage, and ensuring that the Group promotes and encourages the leadership characteristics, skills, and behaviours it needs. Excellent leadership is a vital part of management and helps create the conditions for each and every employee to develop and excel. Stora Enso's Leadership model is today an integrated part in recruitment, training and reward.

Regeneration process continues

Stora Enso has reviewed its organisational structure, as a number of key people will reach retirement age over the next few years. The new organisation focuses on broadening the experience of a number of key managers and reducing the number of management levels within Stora Enso. National age structures differ significantly across the Group, and the regeneration process is currently mainly focused on Stora Enso's Finnish organisation.

Read more about Corporate Social Responsibility and occupational health and safety performance in the Sustainability 2005 report on pages 24–29.

Key figures	2003	2004	2005
Average number of employees	44 264	43 779	46 166
Sales/employee, EUR	274 993	283 145	285 654
Personnel turnover, %*	2.2	5.2	4.0
Training days/employee	3.8	3.4	2.8
Absenteeism due to sickness and accidents, % (of total theoretical working hours)	4.8	4.6	4.5

*Based on number of outgoing permanent employees who left Stora Enso voluntarily.

Employee education structure	
Basic education	21.0%
High school/Vocational certificate	44.5%
College level	13.3%
Barchelor's degree/Polytechnic degree	7.3%
Master's degree	6.0%
Licenciate/Doctorate	0.5%

Corporate Governance

Responsibility is one of Stora Enso's core values, and in governance terms it translates into a strong commitment to sound principles of corporate governance and sustainability. Stora Enso strives to comply with current governance rules and regulations, and to apply best practices in the field of governance.

General Governance Issues

The duties of the various bodies within Stora Enso Oyj (Stora Enso or the Company) are determined by the laws of Finland and by the Company's corporate governance policy, which complies with the Finnish Companies Act and Finnish Securities Market Act. The rules and recommendations of the Helsinki, Stockholm and New York stock exchanges are also followed, where applicable. This corporate governance policy is decided by the Board of Directors (Board).

The Board and the Chief Executive Officer (CEO) are responsible for the management of the Company. Other governance bodies have an assisting and supporting role.

Stora Enso prepares annual and interim financial accounts conforming to International Financial Reporting Standards (IFRS). These reports are published in Finnish, Swedish, English and German. In addition, Stora Enso makes an annual reconciliation with US GAAP (Form 20-F).

The Company's head office is in Helsinki, Finland. It also has an international office in London, United Kingdom and head office functions in Stockholm, Sweden.

Stora Enso has one or two official auditors, as decided by the shareholders at the Annual General Meeting (AGM).

To the maximum extent possible, corporate actions and corporate records are taken and recorded in English.

Governance Bodies

Objectives and Composition of Governance Bodies

The decision-making bodies with responsibility for managing the Company are the Board and the CEO. The operations of the Company are co-ordinated through the Executive Management Group (EMG), Management Group (MG) and various committees.

Day-to-day operational responsibility rests with the divisional managements and their operation teams supported by various staff and service functions.

Board of Directors

Stora Enso is managed by the Board under international corporate governance principles.

According to the Company's articles of association, the Board comprises 6–11 ordinary members appointed by the shareholders at the AGM for a one-year term. It is the policy of the Company that the Board shall have of a majority of independent directors. To be considered "independent", the Board must resolve that a director has no material relationship with the Company other than as a director. Currently, the Board has ten ordinary members: nine non-executive members who are independent and not affiliated with Stora Enso and one executive member (CEO).

All directors are required to deal at arm's length with the Company and its subsidiaries and to disclose circumstances that might be perceived as a conflict of interest.

The shareholders at the AGM decide the remuneration of the Board members (including the remuneration of the members of the Board Committees). As a policy, remuneration is paid to non-executive members only.

The Board supervises the operation and management of Stora Enso and decides on significant matters relating to strategy, investments, organisation and finance.

The Board is responsible for overseeing management and for the proper organisation of Company operations. It is likewise responsible for overseeing the proper supervision of accounting and control of financial matters.

The Board has defined a working order, the principles of which are published in the annual report and on the Company's website.

The Board elects a Chairman and a Vice Chairman from among the non-executive Board members and appoints the CEO and heads of divisions and staff functions. The Board approves the main organisational structure of the Company.

The Board reviews and determines the compensation of the CEO.

The Board evaluates its performance annually. The Board also reviews the corporate governance policy annually and amends it when required.

The Board's work is supported through its committees – the Financial and Audit Committee and the Compensation Committee. Each committee's chairman and members are appointed by the Board annually.

The Board meets at least five times a year. The non-executive Board members meet regularly without executive members in connection with the Board meetings.

In 2005

The Board of Directors had eleven members until the AGM on 22 March 2005 and subsequently ten members. The Board convened seven times. On average directors attended 90% of the meetings.

Board Remuneration

EUR	Chairman	Vice Chairman	Board Member
2005	135 000	85 000	60 000
2004	135 000	85 000	60 000
2003	135 000	85 000	60 000

Board Interests as of 31 December 2005	A shares	R shares
Claes Dahlbäck, Chairman	2 541	19 529
Ilkka Niemi, Vice Chairman	-	-
Gunnar Brock	-	4 000
Lee A. Chaden	-	*3 500
Harald Einsmann	-	*4 800
Jukka Härmälä, CEO	-	8 932
Birgitta Kantola	-	1 500
Jan Sjöqvist	508	1 943
Matti Vuoria	-	9 000
Marcus Wallenberg	2 541	4 715

* ADRs representing R shares

Working Order of the Board of Directors

The working order describes the working practices of the Board of Directors. A summary of key contents is presented below.

Board Meetings

- Regularly, at least five times a year, according to a schedule decided in advance
- Special Board Meetings shall, if requested by a Board member or the CEO, be held within 14 days of the date of request
- Agenda and material shall be delivered to Board members one week before the meeting

Information

- The Board shall receive information monthly concerning financial performance, the market situation and significant events within the Company's and the Group's operations
- Board members shall be informed about all significant events immediately

Matters to be handled at Board Meetings

- Matters specified by the Finnish Companies Act
- Approval of Business Strategy
- Matters concerning organisation and personnel
  - Decisions concerning the basic top management organisation
  - Decisions concerning the composition of the EMG
  - Remuneration of the CEO
  - Appointment and dismissal of the CEO and heads of divisions and other senior officers in the EMG
  - Appointment of Board Committees (including chairmen)
- Economic and financial matters
  - Review of annual budget
  - Approval of loans and guarantees
- Investment matters
  - Approval of Group's investment policy
  - Approval of major investments
- Other matters
  - Report of the CEO on the Group's operations
  - Reports of the Compensation Committee and Financial and Audit Committee by the chairmen of the respective committees. The Nomination Committee's recommendations and proposals shall be reported to the Board by the Chairman of the Board.
  - Approval and regular review of Corporate Governance and the charters of the Board Committees
  - Annual self-assessment of Board work and performance
- Other matters submitted by a member of the Board or the CEO

Chief Executive Officer (CEO)

The CEO is in charge of the day-to-day management of the Company in accordance with instructions and orders issued by the Board. It is the duty of the CEO to ensure that the Company's accounting methods comply with the law and that financial matters are handled in a reliable manner.

The CEO is directly in charge of the following: monitoring and coaching the Publication Paper, Fine Paper, Packaging Boards and Forest Products divisions, business strategy (corporate strategy and emerging markets), finance (financing, accounting, legal affairs and investor relations), market services, corporate communications, corporate support (environment, energy, procurement and R&D) and human resources (corporate IT, human resources and business excellence) as well as preparatory work with regard to Board meetings. In addition, he or she supervises decisions regarding key personnel and other important operational matters.

The Chief Financial Officer (CFO), who is responsible for financing, accounting, legal affairs and investor relations, also acts as a deputy to the CEO.

Executive Management Group (EMG)

The EMG is chaired by the CEO. The EMG members are appointed by the Board. At year-end, it comprised the CFO, four divisional heads (Publication Paper, Fine Paper, Packaging Boards and Forest Products) and the heads of Market Services, Corporate Support, Corporate Strategy and Emerging Markets, and Corporate IT and Human Resources.

The EMG's tasks and responsibilities are investment planning and follow-up, control of mergers and acquisitions and divestments, preparation of strategic guidelines, allocation of resources, review of key day-to-day operations and operational decisions, preparatory work with regard to Board meetings and review of the main features of the sales network.

The EMG meets regularly, approximately once a month, and as required.

In 2005

The EMG had twelve members and convened twenty times. Important items on the agenda in 2005 were planning and deciding on the Asset Performance Review and Profit 2007 programme, and decision on the acquisition of Schneidersöhne Group.

Management Group (MG)

The tasks and responsibilities of the MG are to review the budget, Company strategy and business development.

The MG is chaired by the CEO. The MG comprises members of the EMG and additional members appointed by the CEO.

The MG meets approximately four times a year.

In 2005

The MG had twenty-five members and convened four times.

Board Committees

The tasks and responsibilities of the Board Committees are defined in their charters, which are approved by the Board. All the committees evaluate their performance annually, are allowed to use external consultants and experts when necessary and shall have access to all information needed. Each committee's chairman and members are appointed by the Board annually.

Financial and Audit Committee

The Board has a Financial and Audit Committee to support the Board in maintaining the integrity of the Company's financial reporting and the Board's control functions. It regularly reviews the system of internal control, management and reporting of financial risks and the audit process. It makes recommendations regarding the appointment of external auditors for the parent company and the main subsidiaries.

The Committee is comprised of 3–5 non-executive board members who are independent and not affiliated with the Company. At least one Committee member must be a financial expert who has significant knowledge and experience in accounting and accounting principles applicable to the Company. The Financial and Audit Committee meets regularly at least twice a year. The Committee members meet the external auditor without the management being present in connection with its meetings. The Chairman of the Committee presents a report on each Financial and Audit Committee meeting to the Board. The tasks and responsibilities of the Financial and Audit Committee are defined in its charter, which is approved by the Board. Financial and Audit Committee members may receive compensation solely based on their role as directors. The compensation is decided upon by the shareholders at an AGM.

Financial and Audit Committee members from left: Lee A. Chaden, Jan Sjöqvist, Birgitta Kantola, Claes Dahlbäck and Ilkka Niemi.

Summary of Charter

Main Tasks

- To support the Board in maintaining the integrity of the Company's financial reporting and the Board's control functions
- Regularly to review the system of internal control, management and reporting of financial risks and the audit process
- To make recommendations regarding the appointment of external auditors for the parent company and the main subsidiaries

Composition

- 3–5 non-executive Board members who are independent and not affiliated with the Company
- At least one Committee member must be a financial expert who has significant knowledge and experience in accounting and accounting principles applicable to the Company
- Financial and Audit Committee members may receive compensation based solely on their role as directors, such compensation to be decided by the shareholders at an AGM

Meetings and Reporting to the Board

- The Financial and Audit Committee meets regularly at least twice a year
- Regular participants in the Committee's meetings
    - External Auditors
    - Head of Internal Audit, CFO and Legal Counsel acting as secretary to the Committee
    - Other persons such as SVP Finance, General Counsel and Group Controller invited by the Chairman
- The Committee members meet the external auditors without the management being present in connection with its meetings
- The Chairman of the Committee presents a report on each Financial and Audit Committee meeting to the Board

In 2005

The Financial and Audit Committee comprised five members in 2005. As of 22 March 2005 the members were Jan Sjöqvist (Chairman and appointed Financial Expert), Lee A. Chaden, Claes Dahlbäck, Birgitta Kantola and Ilkka Niemi. The committee convened four times. In addition to the regular tasks based on the Committee's charter, during 2005 the Committee focused on the review of preparations for the internal control assessment pursuant to Section 404 of the Sarbanes-Oxley Act.

Remuneration

Chairman EUR 10 000 per annum and member EUR 7 000 per annum as decided by the AGM.

Compensation Committee

The Board has a Compensation Committee that is responsible for recommending, evaluating and approving executive nominations and compensations (including CEO), evaluating the performance of the CEO, and making recommendations to the Board relating to management compensation issues generally, including equity incentive compensation plans. The Board appoints the CEO and approves his/her compensation.

The Committee is comprised of 3–4 non-executive board members who are independent and not affiliated with the Company. The Compensation Committee meets regularly at least once a year. The Chairman of the Committee presents a report on each Compensation Committee meeting to the Board. The tasks and responsibilities of the Compensation Committee are defined in its charter, which is approved by the Board.

Summary of Charter

Main Tasks

- Responsible for recommending, evaluating and approving executive nominations and compensations (including CEO)
- To evaluate the performance of the CEO
- To make recommendations to the Board relating to management compensation issues
- The Board appoints the CEO and approves his/her compensation

Composition

- 3–4 non-executive board members who are independent and not affiliated with the Company

Meetings and Reporting to the Board

- Regularly at least once a year
- The Chairman presents a report on each Compensation Committee meeting to the Board

In 2005

The Compensation Committee comprised four members in 2005. As of 22 March 2005 the members were Claes Dahlbäck (Chairman), Harald Einsmann, Ilkka Niemi and Matti Vuoria. The Committee convened five times. During 2005 the main tasks were to prepare Stora Enso's top management's salary and other benefit matters, the bonus plan of the CEO and the stock option scheme principles for the year 2005.

Compensation Committee members from left: Matti Vuoria, Harald Einsmann, Claes Dahlbäck and Ilkka Niemi.

Remuneration

Chairman EUR 5 000 per annum and member EUR 3 000 per annum as decided by the AGM.

Nomination Committee appointed by the shareholders

Shareholders have appointed a Nomination Committee to prepare proposals concerning (a) the number of members of the Board of Directors, (b) the members of the Board of Directors, (c) remuneration for the Chairman, Vice Chairman and members of the Board of Directors and (d) the remuneration for the Chairman and members of the committees of the Board of Directors.

The Nomination Committee comprises four members:

- the Chairman of the Board of Directors
- the Vice Chairman of the Board of Directors
- two members appointed annually by the two largest shareholders (one each) according to the share register of 1 October.

The Chairman of the Board of Directors convenes the Nomination Committee. A Nomination Committee member who is also a member of the Board of Directors may not be the Chairman of the Nomination Committee. The Nomination Committee presents its proposal for the Annual General Meeting to the Board of Directors annually before 31 January.

In 2005

Until the AGM on 22 March 2005 the Nomination Committee was a Board Committee comprising four members, Krister Ahlström (Chairman), Claes Dahlbäck, Harald Einsmann and Ilkka Niemi. At the AGM, as explained above, the shareholders appointed a Nomination Committee comprising four members, the Chairman of the Board (Claes Dahlbäck), the Vice Chairman of the Board (Ilkka Niemi) and two other members appointed by the two largest shareholders, Markku Tapio (Finnish State) and Marcus Wallenberg (Knut and Alice Wallenberg Foundation). This procedure is different from the Helsinki Stock Exchange's recommendation that a Nomination Committee should be a Board Committee. Markku Tapio was elected Chairman of the Committee at its first meeting. During 2005 the main tasks of the Committee were to prepare the proposal for AGM concerning Board members and their remuneration. The Nomination Committee convened twice.

Remuneration

Remuneration of EUR 3 000 per annum is paid to members who are not members of the Board as decided by the AGM.

Operative Committees

Investment Committee

The Investment Committee is chaired by the Executive Vice President, Corporate Strategy. The Committee's members are appointed by the CEO.

The tasks and responsibilities of the Investment Committee are co-ordination of the investment planning and approval process, co-ordination of the investment completion audit and follow-up process, participation in the planning and execution of large investment projects in the Company's various geographical areas, and the drawing-up of recommendations on funds available for investments.

The Investment Committee meets at least six times a year and as required.

In 2005

The Investment Committee examined several major investment proposals and made recommendations on the allocation of divisional funds for consideration by the EMG. Important items on the agenda in 2005 were Hylte boiler 2 rebuild, Fors BM 2 and boiler 3 rebuild, restructuring of corrugated board production in Finland and the Schneidersöhne acquisition. M&A Guidelines, updated Investment Guidelines and Implementation Guidelines were also prepared and taken into use. In addition, the Committee audited 20 major projects started in 2003 and 2004 to collect experiences for future use and to secure technology transfer in the Company. The Investment Committee had seven members and convened fourteen times in 2005.

Sustainability Committee

The Sustainability Committee is chaired by the Head of Corporate Support. The Committee's members, representing the relevant staff groups and divisions, are appointed by the CEO.

The tasks of the Sustainability Committee are to formulate corporate policy and strategy in environmental and corporate social responsibility matters, to ensure that these policies and strategies are well established and respected throughout the Company, to co-ordinate and follow-up relations and communication with stakeholders such as governmental and non-governmental organisations, to take initiatives for the development of relevant management procedures and to produce the annual Sustainability Report.

The Sustainability Committee meets regularly as required.

In 2005

Important items on the agenda in 2005 were sustainability principles for wood and fibre procurement, progress towards sustainability targets, management of stakeholder engagement, enforcement of the Code of Ethics, feedback on the Sustainability 2004 report by an external assurance provider and the structure and content of the Group's Sustainability 2005 report. The Sustainability Committee had thirteen members and convened twice in 2005.

Read more about Sustainability governance in the Sustainability 2005 report on pages 6–7.

Research and Development (R&D) Committee

The R&D Committee is chaired by the Head of Corporate Support. The Committee's members, representing the R&D organisation and the divisions, are appointed by the CEO.

The tasks of the R&D Committee are to secure a Group perspective on R&D in the Group with regard to its relevance, quality and efficiency, to initiate R&D policy and strategy at Group level, to monitor Group R&D and to supervise Company-financed R&D undertaken externally. In order to facilitate these tasks, the R&D committee must monitor technology and future-oriented product development.

The R&D Committee meets regularly as required.

In 2005

Important items on the agenda in 2005 were development and expansion of the corporate venturing, governance and funding of new technology development, and Stora Enso's participation in Forest-Based

Sector Technology Platform and in preparing its Strategic Research Agenda. The R&D Committee had nine members and convened twice in 2005.

Disclosure Committee

The Disclosure Committee supervises the reliability of the Company financial reporting and disclosure processes. The Committee is chaired by the Group Controller, and the other permanent members are the head of Internal Auditing and the General Counsel. Other members are nominated by the CEO as required. The Disclosure Committee reports to the CEO and the CFO.

The Disclosure Committee meets regularly as required.

In 2005

The main tasks in 2005 were reviewing the Group's stock exchange releases, interim reviews and annual report. In addition the Committee followed-up the programme initiated to ensure compliance with the Sarbanes-Oxley Act Section 404, Management Assessment of Internal Controls. The Disclosure Committee had three members and convened ten times.

Other Supervisory Bodies and Norms

Auditors

The shareholders at the AGM annually elect one or two auditors for Stora Enso. The Financial and Audit Committee monitors the auditor selection process and gives its recommendation as to who should serve as auditor to the Board and to the shareholders at the AGM. The auditor(s) shall be an authorised public accounting firm or firms, which then appoint(s) the auditor responsible.

Internal Auditing

Stora Enso has a separate internal auditing organisation. The role of Internal Auditing is to provide independent, objective assurance and consulting services that add value and improve the Group's operations. It helps the Group to accomplish its objectives by providing a systematic, disciplined approach to evaluate and improve the effectiveness of internal control, risk management and governance processes.

To ensure the independence of the Internal Auditing department, its personnel report to the Internal Auditing Director, who reports functionally to the Financial and Audit Committee and CEO, and administratively to the CFO.

Internal Auditing conducts regular audits at mills, subsidiaries and other Company units, implementing an annual audit plan approved by the Financial and Audit Committee, including any special tasks or projects requested by management and the Financial and Audit Committee.

Insider Guidelines

The Company complies with the insider guidelines of the Helsinki Stock Exchange. The Company's internal insider guidelines were updated in 2005 to comply with new legislation following the EU Market Abuse Directive. The guidelines are published and distributed throughout the Group.

The Company expects all its employees to act in the way required of an insider. All unpublished information relating to the Company's present and future business operations shall be kept strictly confidential.

The Company's insider register is publicly available and is maintained by the Finnish Central Securities Depository.

Public insiders are members of the Board, the CEO and his/her deputy, and the auditors. The CEO has decided that other public insiders shall be the members of the EMG and nominated persons in legal, financial, accounting, corporate strategy, communications and investor relations functions.

The list of company-specific insiders is approved by the General Counsel and it is not public. Company-specific insiders are for example members of the MG and members of the Corporate Accounting and Corporate Strategy teams.

Persons who participate in the development and preparation of a project such as a merger or acquisition are considered project-specific insiders. A separate project-specific insider register is maintained when considered appropriate by the General Counsel or his or her Deputy.

During the closed period insiders are not allowed to trade in the Company's securities. The period starts two weeks prior to the date when the results of a reporting period are announced. The dates are published in the financial calendar at www.storaenso.com/investors.

US Capital Markets Rules and Requirements

In relation to Section 302 of the Sarbanes-Oxley Act, Stora Enso has introduced procedures that require the respective management of the divisions and subsidiaries to certify the internal controls over the financial reporting process. These procedures and certifications provide the basis on which the CEO and the CFO of Stora Enso certify the consolidated financial statements with the Securities and Exchange Commission.

The provisions of Section 404 of the Act will require Stora Enso's management to report on the effectiveness of internal control over financial reporting in its Annual Report on Form 20-F. The first requirement for this report is for the year ending 31 December 2006. Stora Enso has undertaken a significant project to document and test its internal control over financial reporting in the format required by the Act. This project is on schedule to support certification as at 31 December 2006.

For updated information about Stora Enso's Corporate Governance, visit
www.storaenso.com/governance

Board of Directors

Front row, left to right: Matti Vuoria, Harald Einsmann, Claes Dahlbäck, Jukka Härmälä, Gunnar Brock, Jan Sjöqvist. Back row, left to right: Ilkka Niemi, Lee A. Chaden, Birgitta Kantola, Marcus Wallenberg.

Claes Dahlbäck

Chairman of Stora Enso's Board of Directors since December 1998
Independent member of the Board

- Born 1947. M.Sc. (Econ.), Ph.D. h.c. Swedish citizen.
- Member of the STORA Board of Directors from May 1990 and Chairman of the Board from May 1997 until the merger with Enso in 1998. Chairman of Stora Enso's Compensation Committee since 23 December 1998, and member of the Financial and Audit Committee since 22 March 2005. Member of the Nomination Committee.
- Executive Vice Chairman of the Board of W Capital Management AB. Chairman of the Board of Vin & Sprit AB, Gambro AB, and EQT Funds, and a member of the Board of Goldman & Sachs Co.
- President and CEO of Investor AB 1978–1999. Executive Vice Chairman of the Board of Investor AB 1999–2001 and Chairman of the Board 2002–2005. Vice Chairman of the Board of Skandinaviska Enskilda Banken 1997–2002. Member of the Board of Ericsson 1993–1996 and ABB 1991–1996.
- Owns 2 541 A and 19 529 R shares in Stora Enso.

Ilkka Niemi

Vice Chairman of Stora Enso's Board of Directors since March 2005
Independent member of the Board since March 2001

- Born 1946. M.Sc. (Econ.). Finnish citizen.
- Member of Stora Enso's Financial and Audit Committee since 19 March 2002, and the Compensation Committee since 18 March 2004. Member of the Nomination Committee.
- Senior Advisor and independent consultant on international finance. Chairman of the Board of Motiva Oy since 2001, and member of the Board of Aker Finnyards Inc. since 2003.
- CEO and member of the Board of the Finnish State Guarantee Board 1989–1997. Member of the Board and representative of the Nordic countries and the Baltic countries at the World Bank 1997–2000. Chairman of the Finnish Accounting Standards Board 1993–1996.
- Owns no shares in Stora Enso.

Gunnar Brock

Independent member of Stora Enso's Board of Directors since March 2005

- Born 1950. M.Sc. (Econ.). Swedish citizen.
- President and CEO of the Atlas Copco Group. Member of the Board of Lego AS and Teknikföretagen. Member of the Royal Swedish Academy of Engineering Sciences (IVA).
- CEO of Thule International 2001–2002. President and CEO of Tetra Pak Group 1994–2000.
- Owns 4 000 R shares in Stora Enso.

Lee A. Chaden

Independent member of Stora Enso's Board of Directors since March 2004

- Born 1942. MBA, B.Sc. (Ind. Eng.). American citizen.
- Member of Stora Enso's Financial and Audit Committee since 22 March 2005.
- Executive Vice President of Sara Lee Corporation and CEO of Sara Lee Branded Apparel. Member of the Board of several civic and non-profit organisations.
- Executive Vice President of Global Marketing and Sales of Sara Lee Corporation 2003–2004 and Corporate Senior Vice President of Human Resources 2001–2003. CEO of Sara Lee Branded Apparel-Europe 1999–2001.
- Owns ADRs representing 3 500 R shares in Stora Enso.

Harald Einsmann

Independent member of Stora Enso's Board of Directors since December 1998

- Born 1934. Ph.D. (Econ.). German citizen.
- Member of the STORA Board of Directors from March 1998 until the merger with Enso in 1998. Member of Stora Enso's Compensation Committee since 23 December 1998.
- Member of the Board of Tesco Ltd, Checkpoint Systems USA, Carlson

Companies USA, and several other international corporations.
- President of Procter & Gamble Europe 1984–1999.
- Owns ADRs representing 4 800 R shares in Stora Enso.

Jukka Härmälä
Chief Executive Officer of Stora Enso and member of Stora Enso's Board of Directors since December 1998
- Born 1946. B.Sc. (Econ.), Hon. Ph.D. (Tech. and Econ.). Finnish citizen.
- Joined Enso-Gutzeit in April 1970. Senior Vice President and a member of the Board of Management of Kansallis-Osake-Pankki (a predecessor of Nordea Bank) from February 1984 onwards. Rejoined Enso-Gutzeit in September 1988 as President and COO. Chairman of the Board of Enso-Gutzeit and President and CEO from January 1992 until the merger with STORA in 1998.
- Vice Chairman of the Supervisory Board of Varma Mutual Pension Insurance Company, Vice Chairman of the Board of Finnlines Plc, Chairman of the Board of the TT Foundation, member of the Board of Outokumpu Oyj, the Finnish Forest Industries Federation, the Research Institute of the Finnish Economy ETLA, the Finnish Business and Policy Forum EVA, and the European Round Table of Industrialists (ERT), Co-chairman of the EU-Russia Industrialists' Round Table (IRT).
- Vice Chairman of the Board of the Finnish Forest Industries Federation 1997–1998 and Chairman of the Board 1993–1996. Member of the Board of the Confederation of Finnish Industries EK in 2001, Vice Chairman of the Board in 2000, Chairman of the Board 1997–1999 and Vice Chairman of the Board 1993–1996. Chairman of the Board of Sampo plc 1993–2001.
- Owns 8 932 R shares, and has 612 500 (1999–2004) and 60 000 (2005) options/synthetic options in Stora Enso.

Birgitta Kantola
Independent member of Stora Enso's Board of Directors since March 2005
- Born 1948. LL.M. Finnish citizen.
- Member of Stora Enso's Financial and Audit Committee since 22 March 2005.
- Vice Chairman of the Board of Fortum Oyj. Member of the Board of Varma Mutual Pension Insurance Company, Nordea Bank, Vasakronan AB, Civitas Holding AB, Akademiska Hus AB and Åbo Akademi.
- Vice President and CFO of International Finance Corporation (World Bank Group), Washington D.C. 1995–2000. Executive Vice President of Nordic Investment Bank 1991–1995.
- Owns 1 500 R shares in Stora Enso.

Jan Sjöqvist
Independent member of Stora Enso's Board of Directors since December 1998
- Born 1948. M.Sc. (Econ.). Swedish citizen.
- Member of the STORA Board of Directors from March 1997 until the merger with Enso in 1998. Chairman of Stora Enso's Financial and Audit Committee since 20 March 2003, and Financial Expert of the Financial and Audit Committee since 21 April 2004.
- Chairman of the Board of Concordia Bus AB and ODEN Anläggningsentreprenad AB, and a member of the Board of Green Cargo AB and Lannebo fonder AB.
- Managing Director of Swedia Networks AB 2002–2004 and President and CEO of NCC AB 1993–2001. Member of the Board of Swedia Networks AB 2001–2004, SSAB Swedish Steel 2000–2003, and NCC AB 1988–2001.
- Owns 508 A and 1 943 R shares in Stora Enso.

Matti Vuoria
Independent member of Stora Enso's Board of Directors since March 2005
- Born 1951. LL.M., B.Sc. (Arts). Finnish citizen.
- Member of Stora Enso's Compensation Committee since 22 March 2005.
- President and CEO of Varma Mutual Pension Insurance Company. Member of the Board of Danisco A/S, Sampo plc and Wärtsilä Oyj Abp.
- Executive Vice President of Varma Mutual Pension Insurance Company between January 2004 and May 2004. Executive Chairman of the Board of Fortum Corporation 1998–2003. Vice Chairman of the Board of Danisco A/S 2002–2005 and member of the Board 1999–2002.
- Owns 9 000 R shares in Stora Enso.

Marcus Wallenberg
Independent member of Stora Enso's Board of Directors since December 1998
- Born 1956. B.Sc. (Foreign Service). Swedish citizen.
- Vice President of Stora Feldmühle AG, a STORA subsidiary, from August 1990 until June 1993. Member of the STORA Board of Directors from March 1998 until the merger with Enso in 1998. Member of Stora Enso's Financial and Audit Committee between 29 December 2000 and 22 March 2005. Member of the Nomination Committee.
- Chairman of the Board of Skandinaviska Enskilda Banken AB. Vice Chairman of the Board of Ericsson, Saab AB and the International Chamber of Commerce (ICC). Member of the Board of AstraZeneca PLC, AB Electrolux, and the Knut and Alice Wallenberg Foundation.
- President and CEO of Investor AB 1999–2005 and Executive Vice President 1993–1999. Member of the Board of Skandinaviska Enskilda Banken 2002–2005 and 1995–1999, Scania AB 1994–2005, Ericsson 1996–1998, and Saab AB 1992–1998.
- Owns 2 541 A and 4 715 R shares in Stora Enso.

Krister Ahlström, Vice Chairman and independent member of Stora Enso's Board of Directors from December 1998 until his resignation on 22 March 2005.
Björn Hägglund, Deputy Chief Executive Officer of Stora Enso and a member of Stora Enso's Board of Directors from December 1998 until his retirement on 1 June 2005.
Barbara Kux, independent member of Stora Enso's Board of Directors from March 2003 until her resignation on 22 March 2005.
Paavo Pitkänen, independent member of Stora Enso's Board of Directors from December 1998 until his resignation on 22 March 2005.

Options/synthetic options were issued in each year from 1999 to 2005.

To be considered 'independent', the Board must resolve that a director has no material relationship with the Company other than as a director.

Enso-Gutzeit became Enso in May 1996.
STORA and Enso merged in December 1998.

Executive Management Group

Jukka Härmälä
Chief Executive Officer

- Born 1946. B.Sc. (Econ.), Hon. Ph.D. (Tech. and Econ.). Finnish citizen.
- Was employed by Enso-Gutzeit 1970–1984, rejoined in 1988 as President and COO until 1991. President and CEO from 1992 until the merger with STORA in 1998.

For further information, see page 37.

Jussi Huttunen
Senior Executive Vice President, Market Services

- Born 1954. M.Sc. (Econ.). Finnish citizen.
- Joined Enso-Gutzeit in 1979. Sales Manager at Enso Marketing Co. Ltd. 1983–1985, Managing Director of Enso Rose Ltd. 1986–1992, Managing Director of Enso Marketing Co. Ltd. 1990–1992, Vice President of Enso Fine Paper Division 1992–1994, Managing Director of Enso UK 1994–1998, Managing Director of Stora Enso UK 1999–2001, and Senior Executive Vice President, Stora Enso Fine Paper between January 2002 and April 2005. Member of Stora Enso's Sustainability Committee. Member of the Board of Directors of several subsidiaries and associated companies.
- Owns 885 R shares, and has 159 300 (1999–2004) and 22 500 (2005) options/synthetic options in Stora Enso.

Kai Korhonen
Senior Executive Vice President, Stora Enso Packaging Boards

- Born 1951. M.Sc. (Eng.), eMBA. Finnish citizen.
- Joined Enso's Varkaus Mill (previously A. Ahlström Osakeyhtiö) in 1977. Senior Vice President, Corporate Planning 1991–1992, Managing Director of Sachsen Papier Eilenburg GmbH 1993–1996, Vice President, Marketing, Enso Publication Papers 1996–1998, Senior Executive Vice President, Newsprint 1998–2000, Senior Executive Vice President, North America 2000–2003, and Senior Executive Vice President, Stora Enso Paper between May 2003 and April 2005. Stora Enso Country Manager Finland from 1 January 2006. Member of Stora Enso's R&D and Sustainability Committees. Member of the Board of Directors of several subsidiaries and associated companies.
- Deputy Chairman of the Board of the Finnish Forest Industries Federation from 1 January 2006 and a member of the Board of the Confederation of Finnish Industries EK from 1 January 2006.
- Owns 885 R shares, and has 249 400 (1999–2004) and 22 500 (2005) options/synthetic options in Stora Enso.

Pekka Laaksonen
Senior Executive Vice President, Stora Enso Fine Paper

- Born 1956. M.Sc. (Econ.). Finnish citizen.
- Joined Enso's Plywood Division in 1979. Sales Manager at Enso (Deutschland) 1981–1984, Vice President of the Enso Plywood Division 1984–1985, Sales Manager at Enso (Deutschland) 1985–1988 and Managing Director 1989–1992, Executive Vice President of Enso Packaging Boards Division 1993–1998. Deputy member (January 1993–April 1996) and full member (May 1996–December 1998) of Enso's Board of Directors. Senior Executive Vice President, Stora Enso Packaging Boards between December 1998 and April 2005. Stora Enso Country Manager Finland until 31 December 2005. Member of Stora Enso's Sustainability Committee. Member of the Board of Directors of several subsidiaries and associated companies.
- Deputy Chairman of the Board of Pohjolan Voima Oy and a member of the Board of Suominen Corporation. Chairman of the Board of the Finnish Forest Industries Federation in 2005.
- Owns 15 500 A shares, and has 249 400 (1999–2004) and 22 500 (2005) options/synthetic options in Stora Enso.

Bernd Rettig
Senior Executive Vice President, Stora Enso Publication Paper

- Born 1956. M.Sc. (Eng.). German citizen.
- Joined STORA in 1982. Managing Director of Stora Reisholz GmbH 1992–1996, Managing Director of Stora Enso Kabel GmbH 1996–1999, and Senior Executive Vice President, Magazine Paper between April 1999 and May 2003. Member of Stora Enso's R&D Committee. Member of the Board of Directors of several subsidiaries and associated companies.
- President of the Association of German Paper Industry, Verband Deutscher Papierfabriken (VDP).
- Owns 1 500 R shares, and has 249 400 (1999–2004) and 22 500 (2005) options/synthetic options in Stora Enso.

Hannu Ryöppönen
Senior Executive Vice President and Chief Financial Officer, Finance and Strategy, deputy to the CEO

- Born 1952. B.A. (Business Adm.). Finnish citizen.
- Joined Stora Enso as Senior Executive Vice President and Chief Financial Officer, Finance, Accounting, Legal Affairs and Investor Relations in September 2005. Deputy for the CEO as of September 2005. Before joining Stora Enso was employed by the Dutch company Ahold N.V. as CFO since 2003.
- Owns 10 676 R shares, and has 20 000 (2005) options/synthetic options in Stora Enso.

Front row, left to right: Pekka Laaksonen, Christer Ågren, Elisabet Salander Björklund, Hannu Ryöppönen, Jukka Härmälä. Back row, left to right: Kai Korhonen, Arno Pelkonen (resigned 12 January 2006), Bernd Rettig, Jussi Huttunen, Yngve Stade

Elisabet Salander Björklund

Senior Executive Vice President, Stora Enso Forest Products

- Born 1958. M.Sc. (For.). Swedish citizen.
- Joined STORA in 1995. Managing Director of Stora Timber AB 1995–1999, Director, Business Unit Nordic Redwood, Stora Enso Timber 1999–2000, Director, Raw Material & Fibre Products, Stora Enso Timber 2000–2003, Executive Vice President, Stora Enso Wood Supply Europe between May 2003 and April 2005. Member of Stora Enso's R&D and Sustainability Committees. Member of the Board of Directors of several subsidiaries.
- Vice Chairman of the Board of the Swedish Road Administration. Member of the Board of Clas Ohlson AB.
- Owns 1 000 R shares, and has 72 300 (1999–2004) and 22 500 (2005) options/synthetic options in Stora Enso.

Yngve Stade

Senior Executive Vice President, Corporate Support until 31 March 2006

- Born 1947. M.Sc. (Eng.). Swedish citizen.
- Joined STORA in 1994. Senior Vice President of STORA and President of Stora Corporate Research 1994–1998. Stora Enso Country Manager Sweden until 31 March 2006. Chairman of Stora Enso's R&D and Sustainability Committees, and a member of the Investment Committee. Member of the Board of Directors of several subsidiaries and associated companies.
- Member of the Board of Swedish P&P Research AB and the Marcus Wallenberg Foundation.
- Owns 2 225 R shares, and has 249 400 (1999–2004) and 22 500 (2005) options/synthetic options in Stora Enso.

Christer Ågren

Senior Executive Vice President, Corporate Services

- Born 1954. B.A. (Business Adm.). Swedish citizen.
- Joined STORA in 1993. Senior Vice President, Human Resources at STORA 1993–1998, Executive Vice President, Corporate HR & TQM, Stora Enso between December 1998 and April 2005. Stora Enso Country Manager Sweden from 1 April 2006. Member of Stora Enso's Sustainability Committee.
- Member of the Board of the Swedish Forest Industries Federation and PRI Pensiontjänst AB.
- Owns 4 000 R shares, and has 167 900 (1999–2004) and 22 500 (2005) options/synthetic options in Stora Enso.

Lars Bengtsson, Senior Executive Vice President, Stora Enso North America, retired on 31 December 2005.
Björn Hägglund, Deputy Chief Executive Officer of Stora Enso and a member of Stora Enso's Board of Directors, retired on 1 June 2005.
Esko Mäkeläinen, Chief Financial Officer and Senior Executive Vice President, Finance, Accounting and Legal Affairs, retired on 31 December 2005.

Options/synthetic options were issued in each year from 1999 to 2005.

Enso-Gutzeit became Enso in May 1996.
STORA and Enso merged in December 1998.

Management Group

Magnus Diesen

Executive Vice President, Corporate Strategy
Born 1944. M.Sc. (Paper Tech.).
Finnish citizen.
Joined the Company in 1988.
Chairman of Stora Enso's Investment Committee. Owns 1 000 A and 590 R shares, and has 152 900 (1999–2004) and 15 000 (2005) options/synthetic options in Stora Enso.

Nils Grafström

Executive Vice President, Stora Enso Latin America
Born 1947. LL.M. Swedish citizen.
Employed by the Company 1980–1997, rejoined in 2001. Owns 2 000 A and 1 500 R shares, and has 97 500 (1999–2004) and 15 000 (2005) options/synthetic options in Stora Enso.

Peter Kickinger

Executive Vice President, Stora Enso Timber
Born 1964. M.Sc. (Econ.).
Austrian citizen.
Joined the Company in 1993.
Member of Stora Enso's Investment Committee. Owns 465 R shares, and has 84 100 (1999–2004) and 15 000 (2005) options/synthetic options in Stora Enso.

John Gillen

President and Regional Manager, North America as of 1 January 2006
Member of Stora Enso's Management Group as of 1 January 2006.
Born 1958. B.A. (English).
American citizen.
Joined the Company in 1995.
Owns 750 R shares and ADRs representing 2 845 R shares, and has 53 750 (1999–2004) and 11 500 (2005) options/synthetic options in Stora Enso.

Walter Haberland

Senior Vice President, Information Technology
Born 1946. M.Sc. (Phys.). German citizen.
Joined the Company in 1995.
Owns 750 R shares and has 94 150 (1999–2004) and 11 250 (2005) options/synthetic options in Stora Enso.

Jyrki Kurkinen

General Counsel, Senior Vice President, Legal Affairs
Born 1948. LL.M. Finnish citizen.
Joined the Company in 1979.
Member of Stora Enso's Disclosure Committee. Owns 33 318 R shares, and has 134 150 (1999–2004) and 11 250 (2005) options/synthetic options in Stora Enso.

Mats Nordlander

Executive Vice President, Stora Enso Merchants (Papyrus)
Born 1961, Dip. Eng. Swedish citizen.
Joined the Company in 1994.
Owns 1 000 R shares, and has 75 900 (1999–2004) and 15 000 (2005) options/synthetic options in Stora Enso.

Eberhard Potempa

Senior Vice President, Country Manager Germany
Born 1953. B.Sc. (Econ.). German citizen.
Joined the Company in 1976.
Owns 750 R shares, and has 107 250 (1999–2004) and 11 250 (2005) options/synthetic options in Stora Enso.

Keith B Russell

Senior Vice President, Investor Relations
Born 1958. B.A. British citizen.
Joined the Company in 2002.
Member of Stora Enso's Sustainability Committee. Owns 7 885 R shares, and has 112 500 (2002-2004) and 22 500 (2005) options/synthetic options in Stora Enso.

Markku Pentikäinen

Executive Vice President, Corporate Technology and Asia Pacific
Born 1953. M.Sc. (Eng.), eMBA.
Finnish citizen.
Joined the Company in 1979.
Owns 1 000 R shares, and has 85 300 (1999–2004) and 15 000 (2005) options/synthetic options in Stora Enso.

Niilo Pöyhönen

Executive Vice President, Stora Enso Consumer Boards
Born 1953. M.Sc. (Econ.).
Finnish citizen.
Joined the Company in 1978.
Member of Stora Enso's R&D Committee. Owns 349 R shares, and has 92 150 (1999–2004) and 11 250 (2005) options/synthetic options in Stora Enso.

Kari Vainio

Executive Vice President, Corporate Communications
Born 1946. B.Sc. (Econ.).
Finnish citizen.
Employed by the Company 1980–1983, rejoined in 1985.
Member of Stora Enso's Sustainability Committee. Owns 4 800 R shares, and has 167 900 (1999–2004) and 15 000 (2005) options/synthetic options in Stora Enso.

John F Bergin, Senior Vice President, Speciality Papers, retired on 31 December 2005.

Options/synthetic options were issued in each year from 1999 to 2005.

Enso-Gutzeit became Enso in May 1996.
STORA and Enso merged in December 1998.

Shares and shareholders

Shares of Stora Enso Oyj are divided into A and R shares. All shares entitle holders to an equal dividend but different voting rights. Each A share and each ten R shares carry one vote at the AGM. However, each shareholder has at least one vote. The nominal value of each share is EUR 1.70. The Company's fully paid-up share capital entered in the Finnish Trade Register was EUR 1 382.1 million on 31 December 2005. The total number of shares was 812 977 099 and the number of votes 241 641 510.

Stora Enso continued to repurchase shares in 2005

The Annual General Meeting (AGM) on 22 March 2005 authorised the Board of Directors to repurchase and dispose of not more than 17 900 000 A shares and not more than 62 150 000 R shares. The number of shares repurchased could not exceed 10% of the votes or the share capital. The authorisation is valid up to and including 21 March 2006.

Repurchases began on 30 March 2005. By 31 December 2005, 38 600 A shares and 23 164 400 R shares had been repurchased, representing 0.2% and 37.3% of the target amounts respectively. The average price paid for A shares was EUR 10.74 and for R shares EUR 10.59.

The Board of Directors currently has no authorisations to issue shares, convertible bonds, or bonds with warrants.

Listed on three stock exchanges

Stora Enso shares are listed on the Helsinki and Stockholm Stock Exchanges. R shares are also listed in ADR form on the New York Stock Exchange (NYSE). The shares are quoted in Helsinki in euros (EUR), in Stockholm in Swedish krona (SEK), and in New York in US dollars (USD).

Deutsche Bank Trust Company Americas acts as depositary bank for the Stora Enso ADR programme. The exchange rate between Stora Enso ADRs and R shares is 1:1, i.e. one ADR represents one Stora Enso R share and the ADR ticker is SEO.

Share price performance and volumes

Helsinki

The Stora Enso R (STERV) share price rose during 2005 by 2% (6% in 2004). During the same period, the OMX Helsinki Index rose by 30%, the OMX Helsinki Benchmark Index rose by 31% and the OMX Helsinki Materials Index rose by 8%. The annual high was EUR 12.17 and the annual low EUR 10.05.

Stockholm

The Stora Enso R (STE R) share price rose during 2005 by 6% (5% in 2004). During the same period the OMX Stockholm 30 Index rose by 29% and the OMX Stockholm Materials Index by 22%. The annual high was SEK 110.00 and the annual low SEK 91.75.

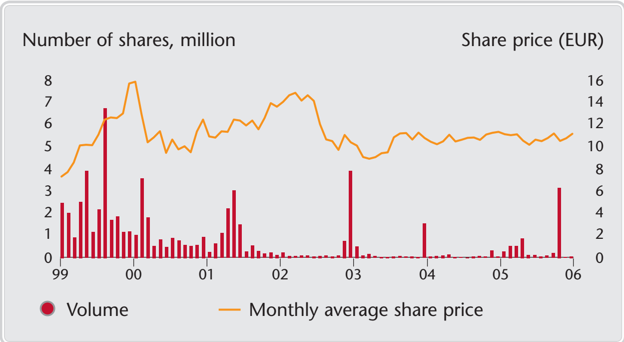
New York

The Stora Enso ADR (SEO) share price rose during 2005 on the NYSE by 11% (12% in 2004). During the same period, the Standard & Poor's Paper index

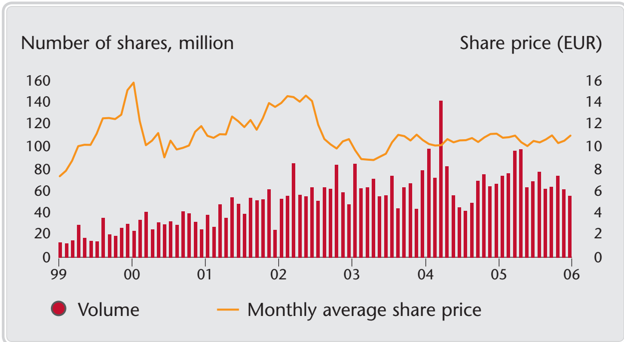
Changes in share capital 2003–2005	No. of A shares issued	No. of R shares issued	Total no. of shares	Share capital (EUR million)
Stora Enso Oyj, 1 Jan 2003	**182 316 685**	**717 461 614**	**899 778 299**	**1 529.6**
Warrants exercised and registered	-	78 000	78 000	-
Cancellation of repurchased shares	-93 800	-35 500 000	-35 593 800	-60.5
Conversion of A shares into R shares	-1 011 805	1 011 805	-	-
Stora Enso Oyj, 31 Dec 2003	**181 211 080**	**683 051 419**	**864 262 499**	**1 469.3**
Warrants exercised and registered	-	789 000	789 000	-
Cancellation of repurchased shares	-8 100	-27 800 000	-27 808 100	-47.3
Conversion of A shares into R shares	-2 154 457	2 154 457	-	-
Stora Enso Oyj, 31 Dec 2004	**179 048 523**	**658 194 876**	**837 243 399**	**1 423.3**
Cancellation of repurchased shares	-16 300	-24 250 000	-24 266 300	-41.2
Conversion of A shares into R shares	-872 445	872 445	-	-
Stora Enso Oyj, 31 Dec 2005	**178 159 778**	**634 817 321**	**812 977 099**	**1 382.1**

Monthly share price performance and volumes on Helsinki Stock Exchange (1999–2005)

A share



R share



decreased by 6%. The annual high was USD 16.00 and the annual low USD 12.36.

Volumes

The volume-weighted average price of the R share over the year was EUR 10.98 in Helsinki (EUR 11.50 in 2004), SEK 102.27 in Stockholm (SEK 99.39 in 2004), and USD 13.69 in New York (USD 13.51 in 2004).

The cumulative trading volume of the R share in Helsinki was 888 511 104 shares (83% of total), in Stockholm 160 325 619 shares (15% of total) and in New York 24 935 800 shares (2% of total). Total market capitalisation on the Helsinki Stock Exchange at year-end was EUR 9.3 billion.

Some 75 000 registered shareholders

As of the end of 2005, the Company had approximately 75 000 registered shareholders, of which about 45 000 are Swedish shareholders and about 2 700 ADR holders. Each nominee register is entered in the share register as one shareholder. Approximately 565 million (69%) of the Company's shares were registered in the name of a nominee.

The free float of shares excluding shareholders with holdings of more than 5% of shares or votes is approximately 630 million shares, which is 77% of the total number of shares issued. The largest single shareholder in the Company is the Finnish State. However, since June 1998 the Finnish State has not been required to own Stora Enso shares.

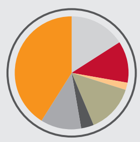
Major shareholders in Stora Enso on 31 December 2005

By voting power		% of shares	% of votes
1	Finnish State	11.9	24.7
2	Knut and Alice Wallenberg Foundation	7.2	24.2
3	Social Insurance Institution of Finland	3.4	10.0
4	Varma Mutual Pension Insurance Company	1.5	4.96
5	Marianne and Marcus Wallenberg Foundation	0.6	2.0
6	Ilmarinen Mutual Pension Insurance Company	1.0	1.6
7	Sampo Life Insurance Company Limited	0.4	1.4
8	MP-Bolagen i Vetlanda AB (Werner von Seydlitz)	0.6	1.3
9	Erik Johan Ljungberg's Education Fund	0.8	1.0
10	Bergslaget's Healthcare Foundation	0.3	0.3
	Total	**27.7**	**71.5**
	Nominee registered shares	**69.5**	**51.3**

The list has been compiled by the Company on the basis of shareholder information obtained from the Finnish Central Securities Depository (APK), the Swedish Securities Register Centre (VPC), and a database managed by Deutsche Bank Trust Company Americas.

As of the end of 2005 end Stora Enso had 178 159 778 A shares and 634 817 321 R shares in issue, of which the Company held 38 600 A shares and 24 373 452 R shares with a nominal value of EUR 41.5 million. The holding represents 3.0% of the Company's share capital and 1.0% of voting rights.

Ownership distribution, 31 December 2005 (by number of shares held)



Finnish institutions	15.9%
Finnish State	11.9%
Finnish private shareholders	2.1%
Swedish institutions	13.8%
Swedish private shareholders	3.6%
ADR holders	11.6%
Under nominee names (non-Finnish/ non-Swedish shareholders)	41.0%

Incentive programmes

Share-based option programmes

In 2005, Stora Enso extended the two share-based option programmes introduced in 2004 to cover all participants in long-term incentive plans. The programmes are synthetic share awards under which designated employees may receive shares already issued (not new shares).

Option/synthetic option programmes

Stora Enso has seven option/synthetic option programmes for key personnel. Options/synthetic options were issued in each year from 1999 to 2005. Depending on local circumstances, holders may receive either cash compensation or an option to purchase shares already issued (not new shares).

Stora Enso North America option programme

Following the acquisition of Consolidated Papers, Inc. the Board of Directors decided to convert the Consolidated Papers' share option plans into Stora Enso share option plans. The options entitle the holder to either cash compensation or an option to subscribe for shares already issued (not new shares).

Detailed descriptions of the option programmes may be found on pages 96–99 in the Financials 2005 report.

Option programmes

Option programme	Type	Year of issue	Number of staff	Strike price	Number of options issued	Number of options outstanding	Exercise period
2005	Synthetic	2005	1 000	EUR 12.20	3 076 125	3 076 125	1 Mar 2008–28 Feb 2012
2004	Synthetic	2004	1 000	EUR 11.15	4 675 300	4 592 800	1 Mar 2007–28 Feb 2011
2003	Synthetic	2003	1 000	EUR 10.00	6 064 150	5 845 400	8 Feb 2006–7 Feb 2010
2002	Synthetic	2002	1 000	EUR 16.50	5 902 000	5 592 000	8 Feb 2005–7 Feb 2009
2001	Synthetic	2001	500	EUR 11.70	4 215 000	3 915 000	1 Apr 2004–31 Mar 2008
2000	Synthetic	2000	200	EUR 12.25	2 800 000	2 545 000	1 Apr 2003–31 Mar 2007
1999	Synthetic	1999	200	EUR 11.75	2 750 000	2 480 450	15 Jul 2002–15 Jul 2006
North America	Stock options	2000	839	USD 6.97 (EUR 5.91)	5 680 000	967 913	11 Sep 2000–4 Feb 2010

Key share ratios 1997–2005 (for calculations see Financials 2005 report, page 113)

According to Helsinki Stock Exchange	1997	1998	1999	2000	2001	2002	2003	2004	2005
Earnings/share, EUR*	0.53	0.24	0.98	1.77	1.02	-0.27	0.16	0.89	-0.16
diluted, EUR*	0.53	0.24	0.98	1.76	1.02	-0.27	0.17	0.89	-0.16
excl. non-recurring items, EUR*	0.58	0.59	0.89	1.32	0.93	0.55	0.24	0.25	0.28
Cash earnings/share, EUR*	1.63	1.79	2.18	3.16	2.42	2.50	1.57	2.01	1.62
diluted, EUR*	1.63	1.79	2.18	3.13	2.42	2.50	1.57	2.01	1.62
excl. non-recurring items, EUR*	1.65	1.80	2.09	2.61	2.33	1.97	1.63	1.67	1.70
Equity/share, EUR*	7.28	6.94	7.84	9.41	9.90	9.22	9.49	9.81	9.70
Dividend/share, EUR*	0.33	0.35	0.40	0.45	0.45	0.45	0.45	0.45	**0.45
Payout ratio, excl. non-recurring items, %*	57	59	45	34	48	82	180	180	161
Dividend yield, %*									
A share	4.6	4.6	2.3	3.5	3.2	4.5	4.1	3.9	3.9
R share	4.6	4.6	2.3	3.6	3.1	4.5	4.2	4.0	3.9
Price/earnings ratio (P/E)*									
A share	12.3	12.8	19.8	9.7	15.1	17.7	44.0	46.2	40.9
R share	12.2	13.0	19.4	9.5	15.3	17.6	42.7	45.1	40.9
Average share prices for the period, EUR***									
A share	7.75	9.14	11.21	12.01	12.24	11.24	10.63	11.11	11.05
R share	7.97	8.35	11.84	11.27	12.57	12.86	10.23	10.89	10.98
Total market capitalisation at year-end, EUR million***	2 214	5 801	13 209	11 733	13 006	9 052	9 288	9 486	9 304
Average number of shares (thousands)									
basic*	759 574	759 574	759 580	812 040	901 506	889 606	851 128	829 935	798 687
diluted*	759 691	759 822	760 628	813 488	902 296	889 956	851 326	830 546	799 218

* Proforma STORA and Enso figures for years 1997–1998 ** Board of Directors' proposal to the AGM *** Figures based on market information are calculated from Enso Oyj's figures before 29 December 1998

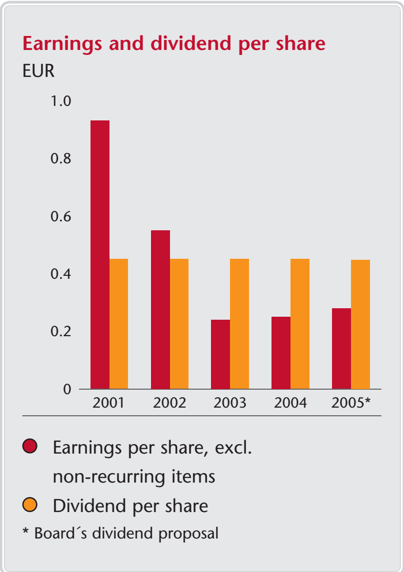
Trading codes, lots and currencies

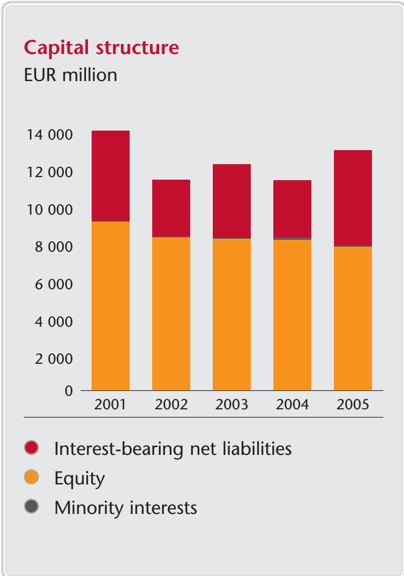
	Helsinki	Stockholm	New York
A Share	STEAV	STE A	-
R Share	STERV	STE R	-
ADRs	-	-	SEO
Lot	100	200	-
Currency	EUR	SEK	USD

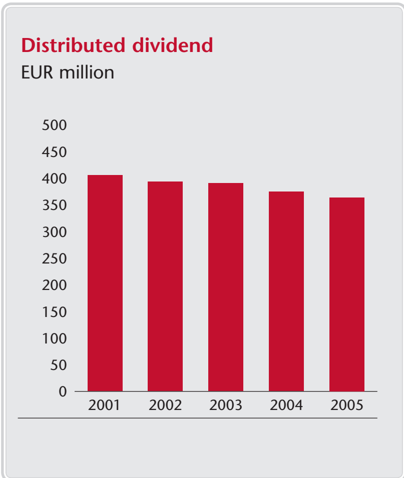
Reuters	STERV.HE
Bloomberg	STERV FH EQUITY

German stock market quotations (Freiverkehr)

	Symbol	CUSIP number	Place of listing
A Share	ENUA	870 734	Berlin, Munich
R Share	ENUR	871 004	Berlin, Frankfurt, Stuttgart, Munich







Detailed information may be found on pages 12–19 of the Financials 2005 report and updated information on the Company's website **www.storaenso.com/investors**

Consolidated Income Statement

EUR million	Year Ended 31 December 2003	2004	2005
Sales	**12 172.3**	**12 395.8**	**13 187.5**
Other operating income	55.0	180.7	80.1
Changes in inventories of finished goods and work in progress	63.5	39.0	71.7
Change in net value of biological assets	11.6	7.1	-6.7
Materials and services	-6 218.2	-6 607.6	-7 297.3
Freight and sales commissions	-1 286.8	-1 367.8	-1 493.0
Personnel expenses	-2 297.6	-1 937.3	-2 216.6
Other operating expenses	-828.0	-831.8	-991.9
Depreciation, amortisation and impairment charges	-1 200.4	-1 172.0	-1 427.7
Operating Profit / (Loss)	**471.4**	**706.1**	**-93.9**
Share of results in associated companies	-23.0	38.9	67.2
Financial income	311.5	141.0	213.0
Financial expense	-549.2	-247.0	-364.6
Profit / (Loss) before Tax	**210.7**	**639.0**	**-178.3**
Income tax	-67.0	108.8	52.0
Net Profit / (Loss) for the Period	**143.7**	**747.8**	**-126.3**
Attributable to:			
Equity Holders of the Parent Company	137.9	739.7	-130.0
Minority Interests	5.8	8.1	3.7
Net Profit / (Loss) for the Period	**143.7**	**747.8**	**-126.3**
Earnings per Share			
Basic earnings / (loss) per share, EUR	0.16	0.89	-0.16
Diluted earnings / (loss) per share, EUR	0.16	0.89	-0.16

For the full financial information, see the separate Financials 2005 report or www.storaenso.com/investors

Consolidated Balance Sheet

EUR million		As at 31 December 2003	2004	2005
Assets				
Fixed Assets and Non-current Investments				
Goodwill	O	902.6	787.9	961.8
Other intangible fixed assets	O	80.4	108.1	194.1
Property, plant and equipment	O	9 964.5	9 754.8	9 936.8
		10 947.5	10 650.8	11 092.7
Biological assets	O	1 587.8	64.6	76.8
Emission rights	O	-	-	43.7
Investment in associated companies	A	319.0	568.1	719.9
Available-for-Sale: Listed securities	I	227.7	220.1	211.6
Available-for-Sale: Unlisted shares	O	140.8	132.8	403.6
Non-current loan receivables	I	44.3	233.1	127.6
Deferred tax assets	T	12.1	11.4	72.2
Other non-current assets	O	170.3	210.5	269.4
		13 449.5	**12 091.4**	**13 017.5**
Current Assets				
Inventories	O	1 623.5	1 771.3	2 150.5
Tax receivables	T	182.5	160.9	108.5
Short-term operative receivables	O	1 703.3	1 865.3	2 157.9
Interest-bearing receivables	I	781.8	248.7	309.2
Cash and cash equivalents	I	201.5	274.3	351.4
		4 492.6	**4 320.5**	**5 077.5**
Total Assets		**17 942.1**	**16 411.9**	**18 095.0**
Equity and Liabilities				
Equity Attributable to Parent Company Shareholders				
Share capital		1 469.3	1 423.3	1 382.1
Share premium fund		1 237.4	1 009.2	784.8
Treasury shares		-258.0	-180.8	-259.9
Other comprehensive income		114.6	67.6	468.0
Cumulative translation adjustment		-197.1	-218.9	-127.1
Retained earnings		5 434.0	5 196.2	5 527.4
Net profit for the period		137.9	739.7	-130.0
		7 938.1	**8 036.3**	**7 645.3**
Minority Interests		60.3	136.1	93.6
Total Equity		**7 998.4**	**8 172.4**	**7 738.9**
Non-current Liabilities				
Post-employment benefit provisions	O	911.9	637.8	494.0
Other provisions	O	97.1	60.9	142.6
Deferred tax liabilities	T	1 771.3	1 314.6	1 076.2
Non-current debt	I	3 404.6	3 328.1	4 353.9
Other non-current operative liabilities	O	98.5	174.0	204.7
		6 283.4	**5 515.4**	**6 271.4**
Current Liabilities				
Current portion of non-current debt	I	359.5	102.1	385.0
Interest-bearing liabilities	I	1 410.1	597.4	1 345.0
Current operative liabilities	O	1 538.3	1 673.1	1 975.4
Tax liabilities	T	352.4	351.5	379.3
		3 660.3	**2 724.1**	**4 084.7**
Total Equity and Liabilities		**17 942.1**	**16 411.9**	**18 095.0**

Items designated "O" comprise Operative Capital

Items designated "I" comprise Interest-bearing Net Liabilities

Items designated "T" comprise Net Tax Liabilities

Items designated "A" comprise Associated Companies

Consolidated Cash Flow Statement

	Year Ended 31 December		
EUR million	**2003**	**2004**	**2005**
Cash Flow from Operating Activities			
Net profit / (loss) for the period	143.7	747.8	-126.3
Reversal of non-cash items:			
Taxes	67.0	-108.8	-52.0
Depreciation, amortisation and impairment charges	1 200.4	1 172.0	1 427.7
Change in value of biological assets	-11.6	-7.1	6.7
Share of results of associated companies	23.0	-38.9	-67.2
Profits and losses on sale of fixed assets and investments	-10.5	-125.8	5.0
Net financial income	237.7	106.0	151.6
Interest received	24.6	15.6	29.0
Interest paid, net of amounts capitalised	-228.1	-182.3	-166.2
Dividends received	5.8	24.6	16.1
Other financial items, net	-0.4	17.3	3.6
Income taxes paid	-278.0	-114.2	-209.0
Change in net working capital, net of businesses acquired or sold	471.0	-100.8	-278.7
Net Cash Provided by Operating Activities	**1 644.6**	**1 405.4**	**740.3**
Cash Flow from Investing Activities			
Acquisition of subsidiary shares	-128.2	-176.4	-323.9
Acquisition of shares in associated companies	-103.5	-250.4	-55.7
Acquisition of available-for-sale investments	-12.6	-13.2	-8.6
Capital expenditure	-1 226.7	-975.1	-1 129.6
Investment in biological assets	-6.2	-4.5	-15.7
Proceeds from disposal of subsidiary shares	-	197.9	1.6
Proceeds from disposal of shares in associated companies	0.4	-	-
Proceeds from disposal of available-for-sale investments	18.5	32.8	97.4
Proceeds from sale of fixed assets	47.5	36.4	14.5
Proceeds from (payment of) non-current receivables, net	339.2	-182.5	98.3
Net Cash Used in Investing Activities	**-1 071.6**	**-1 335.0**	**-1 321.7**
Cash Flow from Financing Activities			
Proceeds from (payment of) non-current liabilities, net	-957.4	1 261.2	671.3
Proceeds from (payment of) current borrowings, net	1 141.2	-697.4	674.9
Dividends paid	-387.7	-375.7	-365.3
Minority dividends less equity injections	-1.9	-1.9	-0.2
Options Exercised	-0.9	1.6	-
Repurchase of own shares	-319.1	-198.6	-344.7
Net Cash Used in Financing Activities	**-525.8**	**-10.8**	**636.0**
Net Increase (Decrease) in Cash and Cash Equivalents	**47.2**	**59.6**	**54.6**
Cash and bank in acquired companies	3.0	45.9	10.2
Cash and bank in divested companies	-	-29.5	-
Translation adjustment	-17.2	-3.2	12.3
Cash and cash equivalents at beginning of year	168.5	201.5	274.3
Cash and Cash Equivalents at Year End	**201.5**	**274.3**	**351.4**

Consolidated Cash Flow Statement

Supplemental Cash Flow Information

		Year Ended 31 December	
EUR million	2003	2004	2005
Change in Net Working Capital consists of:			
Change in inventories	-63.5	-106.8	-254.7
Change in interest-free receivables: Current	188.1	-175.7	-51.4
Change in interest-free receivables: Non-current	26.8	-50.5	-3.4
Change in interest-free liabilities: Current	-62.2	-289.1	-7.1
Change in interest-free liabilities: Non-current	68.7	77.0	28.1
Proceeds from (payment of) short-term Interest-bearing receivables	313.1	444.3	9.8
	471.0	**-100.8**	**-278.7**
Non-cash Investing and Financing Activities:			
Total capital expenditure	1 248.2	975.1	1 129.6
Amounts paid	1 226.7	975.1	1 129.6
Finance lease obligations incurred	**21.5**	-	-
Acquisition of Group Companies			
Cash Flow on Acquisitions			
Purchase consideration on acquisitions	128.2	176.4	323.9
Cash and cash equivalents in acquired companies	-3.0	-45.9	-10.3
	125.2	130.5	313.6
Non-cash Transaction			
Associate shares held	-	3.9	5.0
Total Acquisition Value	**125.5**	**134.4**	**318.6**
Acquired Net Assets			
Operating working capital	31.2	44.0	171.4
Operating fixed assets	206.4	190.2	388.3
Interest-bearing assets less cash and cash equivalents	5.7	0.7	-
Tax liabilities	-0.2	-19.2	-59.8
Interest-bearing liabilities	-90.3	-11.4	-274.6
Minority interests	-27.6	-69.9	93.3
Total Net Asset Acquired	**125.2**	**134.4**	**318.6**
Disposal of Group Companies			
Cash Flow on Disposals			
Cash flow on disposal	-	197.9	1.6
Cash and cash equivalents in divested companies	-	-29.5	-
	-	168.4	1.6
Net Assets Sold			
Operating working capital	-	62.2	-
Operating fixed assets	-	94.1	-
Biological assets	-	1 541.2	-
Interest-bearing assets less cash and cash equivalents	-	23.1	1.6
Tax liabilities	-	-222.9	-
Interest-bearing liabilities	-	-1 518.8	-
Gain on sale	-	113.0	-
	-	91.9	1.6
Provision for unrealised gain	-	76.5	-
Total Net Assets Sold	-	**168.4**	**1.6**

Key Figures 1997 – 2005

EUR million	1997	1998	1999	2000	2001	2002	2003	2004	2005
Sales	9 998	10 490	10 636	13 017	13 509	12 783	12 172	12 396	13 188
% change on previous year	5.1	4.9	1.4	22.4	3.8	-5.4	-4.8	1.8	6.4
Wages and salaries	1 737	1 805	1 738	2 023	2 246	2 308	2 298	*1 937	2 217
% of sales	17.4	17.2	16.3	15.4	16.6	18.1	18.9	15.6	16.8
EBITDA	1 747	1 877	2 328	3 472	2 743	2 288	1 672	1 878	1 334
Depreciation	806	1 111	849	1 041	1 116	1 397	1 084	1 082	1 420
Goodwill amortisation and impairments	48	65	62	88	152	1 069	116	90	8
Operating profit	893	701	1 416	2 344	1 475	-178	471	706	-94
% of sales	8.9	6.7	13.3	18.0	10.9	-1.4	3.9	5.7	-0.7
Non-recurring items	-52	-471	103	445	-8	-1 078	-54	370	-451
Operating profit excl. non-recurring items	945	1 172	1 314	1 899	1 483	900	526	336	357
% of sales	9.5	11.2	12.4	14.6	11.0	7.0	4.3	2.7	2.7
Share of profits in associated companies	17	10	10	21	80	15	-23	39	67
Net financial expense	280	380	267	293	344	206	238	106	152
% of sales	2.8	3.6	2.5	2.3	2.5	1.6	2.0	0.9	1.1
Profit after net financial items	630	331	1 160	2 071	1 211	-369	211	639	-178
% of sales	6.3	3.2	10.9	15.9	9.0	-2.9	1.7	5.2	-1.4
Profit after net financial items excl. non-recurring items	682	802	1 057	1 626	1 219	709	319	269	273
% of sales	6.8	7.6	9.9	12.5	9.0	5.5	2.6	2.2	2.1
Taxes	-204	-146	-397	-642	-296	129	-67	109	52
Net profit (attributable to company shareholders)	405	185	758	1 415	918	-241	138	740	-130
Dividend	254	268	304	407	404	392	388	376	365
Capital expenditure	1 134	896	740	769	857	878	1 248	980	1 145
% of sales	11.3	8.5	7.0	5.9	6.3	6.9	10.3	7.9	8.7
R&D expenditure	79	80	84	95	92	92	89	82	88
% of sales	0.8	0.8	0.8	0.7	0.7	0.7	0.7	0.7	0.7
Operating capital	13 057	12 520	12 489	16 402	16 231	13 079	13 527	12 150	13 378
Capital employed	11 557	11 023	10 851	13 793	13 948	11 105	11 598	10 656	12 103
Interest-bearing net liabilities	6 090	5 783	5 524	5 396	5 127	3 267	3 919	3 051	5 084
ROCE, %	8.0	6.2	12.9	19.0	10.6	-1.4	4.0	6.3	-0.8
ROCE excluding non-recurring items, %	8.5	10.4	12.0	15.4	10.6	7.2	4.5	3.0	3.1
Return on equity (ROE), %	7.5	3.3	12.8	19.7	10.4	-2.8	1.7	9.2	-1.6
Equity ratio, %	37.2	36.0	38.4	40.6	43.8	44.3	44.7	49.8	42.8
Debt/Equity ratio	1.05	1.04	0.90	0.63	0.58	**0.37	0.49	0.38	0.66
Average number of employees	40 301	40 987	40 226	41 785	44 275	43 853	44 264	43 779	46 166

* Including income relating to the change in the Finnish disability pension scheme

** Adjusted with the initial valuation of IAS 41, Agriculture

Auditors' Report

To the shareholders of Stora Enso Oyj
We have audited the accounting records, the financial statements and the administration of Stora Enso Oyj for the year ended 31 December 2005. The Board of Directors and the Chief Executive Officer have prepared the report on operations and the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, and the parent company's financial statements prepared in accordance with prevailing regulations in Finland, that includes parent company's balance sheet, income statement, cash flow statement and the notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, the parent company's financial statements and on the administration of the parent company.

We have conducted the audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit 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 as well as evaluating the overall financial statement presentation. The purpose of our audit of administration is to examine that the members of the Board of Directors and the Chief Executive Officer of the parent company have legally complied with the rules of the Finnish Companies Act.

Consolidated financial statements
In our opinion the consolidated financial statements give a true and fair view, as referred to in International Financial Reporting Standards as adopted by the EU and defined in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position. The consolidated financial statements can be adopted.

Parent company's financial statements and administration
In our opinion the parent company's 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 Finnish Accounting Act, of the parent company's 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 Chief Executive Officer of the parent company can be discharged from liability for the year audited by us. The proposal by the Board of Directors regarding distributable funds is in compliance with the Finnish Companies Act.

Helsinki, 28 February, 2006

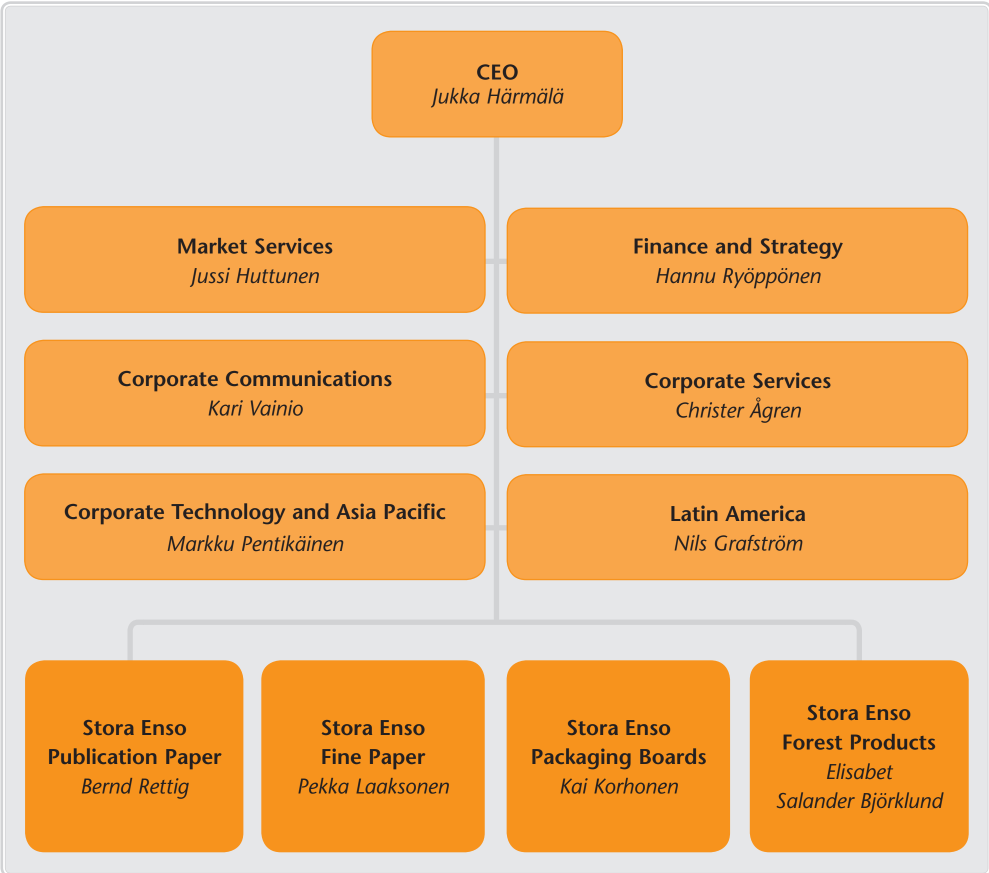
PricewaterhouseCoopers Oy
Authorised Public Accountants

Eero Suomela
APA

* This audit report refers to the full consolidated financial statements printed in a separate document, Financials 2005.

Stora Enso's organisation

(as of 1 April 2006)



It should be noted that certain statements herein which are not historical facts, including, without limitation those regarding expectations for market growth and developments; expectations for growth and profitability; and statements preceded by "believes", "expects", "anticipates", "foresees", or similar expressions, are forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995. Since these statements are based on current plans, estimates and projections, they involve risks and uncertainties, which may cause actual results to materially differ from those expressed in such forward-looking statements. Such factors include, but are not limited to: (1) operating factors such as continued success of manufacturing activities and the achievement of efficiencies therein, continued success of product development, acceptance of new products or services by the Group's targeted customers, success of the existing and future collaboration arrangements, changes in business strategy or development plans or targets, changes in the degree of protection created by the Group's patents and other intellectual property rights, the availability of capital on acceptable terms; (2) industry conditions, such as strength of product demand, intensity of competition, prevailing and future global market prices for the Group's products and the pricing pressures thereto, price fluctuations in raw materials, financial condition of the customers and the competitors of the Group, the potential introduction of competing products and technologies by competitors; and (3) general economic conditions, such as rates of economic growth in the Group's principal geographic markets or fluctuations in exchange and interest rates.

Information for shareholders

Annual General Meeting (AGM)

The AGM of Stora Enso Oyj will be held at 16.00 (Finnish time) on Tuesday 21 March 2006 at Marina Congress Center, Katajanokanlaituri 6, Helsinki, Finland.

Nominee-registered shareholders wishing to attend and vote at the AGM must be temporarily registered in the share register of Stora Enso Oyj on the record date, 10 March 2006. Instructions for submitting notice of attendance will be given in the convocation to the AGM, which will be sent to shareholders, and on the Company's website at www.storaenso.com/investors.

Main proposals of the Board of Directors (BOD) to the AGM

- The share capital of the Company be reduced through the cancellation of repurchased shares.
- The BOD be authorised to repurchase and dispose of shares in the Company.
- Appointment of Nomination Committee

Payment of dividend

The BOD will propose to the AGM that a dividend of EUR 0.45 per share be paid for the fiscal year ending 31 December 2005.

Dividends payable on VPC-registered shares will be forwarded by VPC and paid in Swedish krona. Dividends payable to ADR holders will be forwarded by Deutsche Bank Trust Company Americas (DBTCA) and paid in US dollars.

Publication dates for 2006

2 February	Financial results for 2005
7 March	Annual and Sustainability reports
26 April	Interim review for January–March
April	Annual report on Form 20-F
26 July	Interim review for January–June
26 October	Interim review for January–September

Distribution of financial information

The Stora Enso **annual report** comprising three separate reports (Company, Sustainability and Financials) is published in English, Finnish, German and Swedish.

The Company and Sustainability reports are distributed to those shareholders in Finland and Sweden who have so requested, and to all registered ADR holders. The Financials report can be ordered at www.storaenso.com/order or from any of the corporate offices. The annual report is also downloadable as a PDF file from the Company's website.

A summary annual report on Form 20-F is distributed to all registered ADR holders. **The complete Form 20-F** is available on request and downloadable as a PDF file from the Company's website and from the website of the US Securities and Exchange Commission (www.sec.gov).

Printed **interim reviews** (in English, Finnish and Swedish) are distributed to those shareholders in Finland and Sweden who have so requested. ADR holders in North America may request printed copies from DBTCA. The interim reviews are published on the Company's website, from which they can be downloaded as PDF files.

E-mail alerts for stock exchange releases, calendar reminders and new financial information notifications can be ordered at www.storaenso.com/email.

Unsubscribe to e-mail alerts via www.storaenso.com/email. On unsubscribing, you will be deleted from all e-mail alert lists to which you subscribed. If your e-mail address has changed please unsubscribe your old e-mail address, and then subscribe again using your new e-mail address.

Mailing lists for financial information

Please notify any change of address or request for addition to or removal from the mailing lists as follows:

Finnish shareholders: by e-mail corporate.communications@storaenso.com, by mail Stora Enso Oyj, Financial Communications, P.O. Box 309, FI-00101 Helsinki or by tel. +358 2046 131.

Swedish shareholders: by e-mail stora@strd.se, by fax +46 8 449 88 10 or by mail Stora Enso, SE-120 88 Stockholm.

Registered ADR holders should contact DBTCA. Beneficial owners of Stora Enso ADRs should contact their broker.

Other stakeholders: see details for Finnish shareholders.

Information for holders of American Depositary Receipts (ADRs)

The Stora Enso dividend reinvestment and direct purchase plan is administered by Deutsche Bank Trust Company Americas (DBTCA). The plan makes it easier for existing ADR holders and first-time purchasers of Stora Enso ADRs to increase their investment by reinvesting cash dividends or by making additional cash investments. The plan is intended only for US residents. Further information on the Stora Enso ADR programme is available at www.adr.db.com.

Contact information for Stora Enso ADR holders

Deutsche Bank Trust Company Americas
c/o Mellon Investor Services
480 Washington Boulevard,
Jersey City NJ 07310, USA
Toll-Free (within the USA only):
+1 800 249 1707

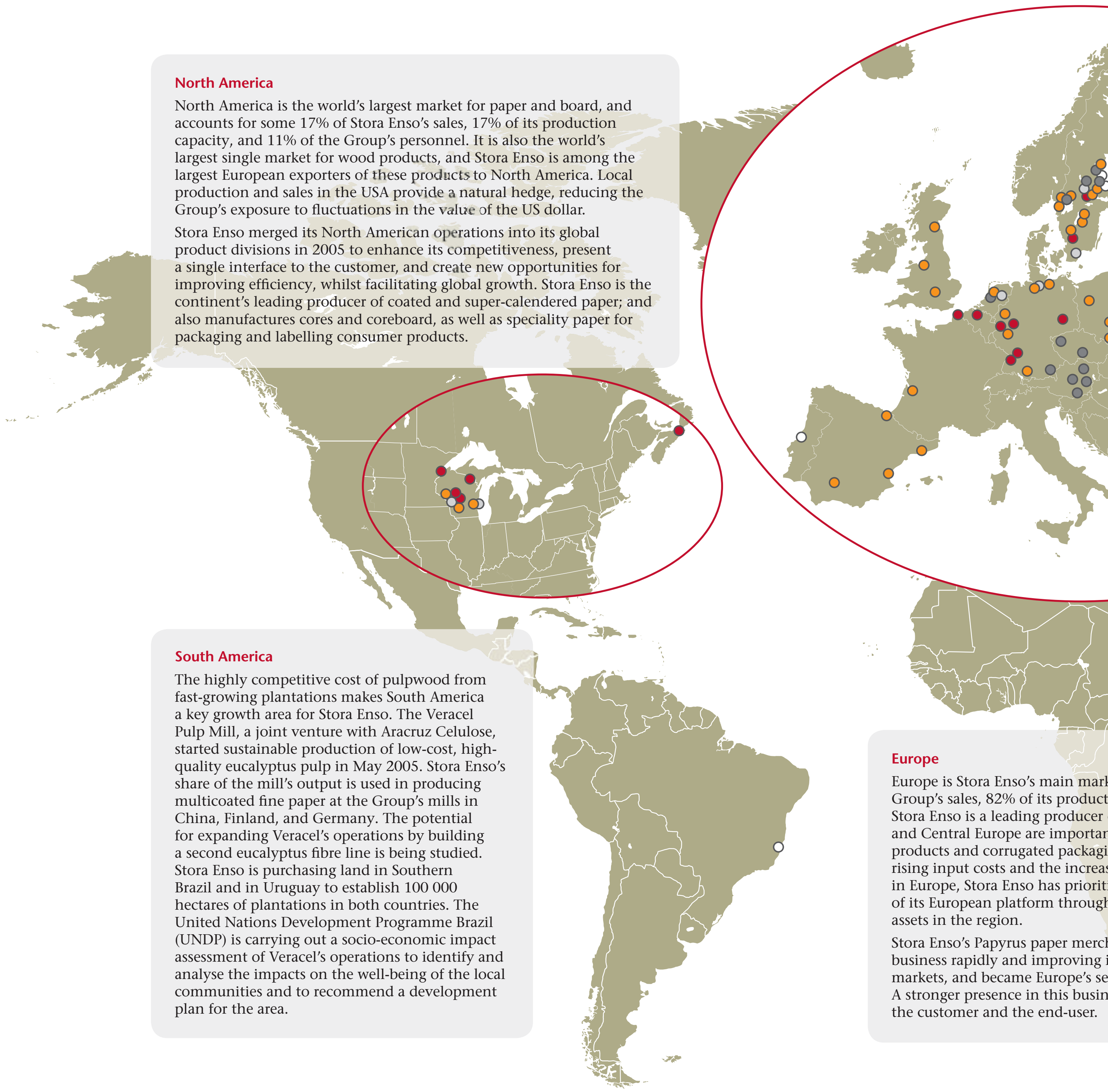
Filings to SEC through EDGAR

EDGAR (Electronic Data Gathering and Retrieval system) filings are mandatory for non-US companies listed on the New York Stock Exchange. Stora Enso's filed stock exchange releases and interim reviews may be viewed at SEC's website www.sec.gov and at www.storaenso.com/investors.

North America

North America is the world's largest market for paper and board, and accounts for some 17% of Stora Enso's sales, 17% of its production capacity, and 11% of the Group's personnel. It is also the world's largest single market for wood products, and Stora Enso is among the largest European exporters of these products to North America. Local production and sales in the USA provide a natural hedge, reducing the Group's exposure to fluctuations in the value of the US dollar.

Stora Enso merged its North American operations into its global product divisions in 2005 to enhance its competitiveness, present a single interface to the customer, and create new opportunities for improving efficiency, whilst facilitating global growth. Stora Enso is the continent's leading producer of coated and super-calendered paper; and also manufactures cores and coreboard, as well as speciality paper for packaging and labelling consumer products.



South America

The highly competitive cost of pulpwood from fast-growing plantations makes South America a key growth area for Stora Enso. The Veracel Pulp Mill, a joint venture with Aracruz Celulose, started sustainable production of low-cost, high-quality eucalyptus pulp in May 2005. Stora Enso's share of the mill's output is used in producing multicoated fine paper at the Group's mills in China, Finland, and Germany. The potential for expanding Veracel's operations by building a second eucalyptus fibre line is being studied. Stora Enso is purchasing land in Southern Brazil and in Uruguay to establish 100 000 hectares of plantations in both countries. The United Nations Development Programme Brazil (UNDP) is carrying out a socio-economic impact assessment of Veracel's operations to identify and analyse the impacts on the well-being of the local communities and to recommend a development plan for the area.

Europe

Europe is Stora Enso's main mark
Group's sales, 82% of its product
Stora Enso is a leading producer
and Central Europe are importar
products and corrugated packagi
rising input costs and the increas
in Europe, Stora Enso has priorit
of its European platform through
assets in the region.

Stora Enso's Papyrus paper merch
business rapidly and improving i
markets, and became Europe's se
A stronger presence in this busin
the customer and the end-user.

● Publication Paper ● Fine Paper ● Packaging Boards ● Wood Products ○ Pulp in bales

SALES COMPANIES

Argentina
Buenos Aires

Australia
Brisbane
Melbourne
Sydney

Austria
Brand
Vienna
Wolfsberg
Ybbs

Belgium
Diegem

Brazil
São Paulo

Canada
Montreal
Toronto

Chile
Santiago de Chile

China
Beijing
Guangzhou
Hong Kong
Shanghai

Czech Republic
Prague
Zdirec

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Tallinn

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Pfarrkirchen

Greece
Athens

Hungary
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India
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Indonesia
Jakarta

Ireland
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Italy
Milan

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Latvia
Riga

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Alytus

Malaysia
Kuala Lumpur

Mexico
Mexico City

Netherlands
Amsterdam

Norway
Oslo

Poland
Warsaw

Portugal
Estoril
Matosinhos

Russia
Moscow
St. Peters

Singapo
Singapor

Slovakia
Bratislav

Slovenia
Koper

South A
Cape To

Russia

Russia is a fast-growing market for many of Stora Enso's products. The Group has two corrugated packaging mills and two sawmills in Russia, and sees scope for carefully planned and risk-assessed strategic investment in new mills in these product segments. The long-term strategic intention is to expand also in pulp, paper or board, when the conditions for a major investment are appropriate. Demand for high-quality packaging continues to be strong, and Stora Enso is looking for a location to grow its corrugated board production in European Russia.

Russia is also a major source of wood raw material for the Group, and supplies wood to Stora Enso's mills in the Baltic countries, Finland, and Sweden. Stora Enso has joined forces with three publishers – Axel Springer, Random House Group UK, and Time Inc. – under the umbrella of a joint pilot initiative, known as the Tikhvin Project, to improve the transparency of the wood supply chain in Russia.

ket, and accounts for some 72% of the
ion capacity, and 86% of personnel.
of paper and board in Europe. Eastern
t areas for manufacturing wood
ng, and for wood procurement. Given
sed competition facing production
ised improving the competitiveness
n continued development of its core

hant business has been expanding its
ts geographical coverage of European
cond-largest paper merchant in 2005.
ess area will bring Stora Enso closer to

China

The Chinese market has great growth potential. Stora Enso already has a fine paper machine in Suzhou, a core plant in Hangzhou, eucalyptus plantations in Guangxi in Southern China, and five sales companies across the region. The Group signed an agreement with Gaofeng Forest - Pulp & Paper Company to increase its land concession rights and wholly-owned plantations in Guangxi to some 60 000 hectares. The UNDP China conducted an environmental and social impact assessment of Stora Enso's Guangxi plantations during autumn 2005, and recommended development priorities and ways of minimising any adverse impact associated with operations.

www.storaenso.com/mills

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Zürich

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United Arab Emirates
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Zagreb

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Denmark
Taastrup

Estonia
Tallinn

Finland
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Geispolsheim
Pantin
Wissous

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Essen
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Switzerland
Dintikon
Thalwil

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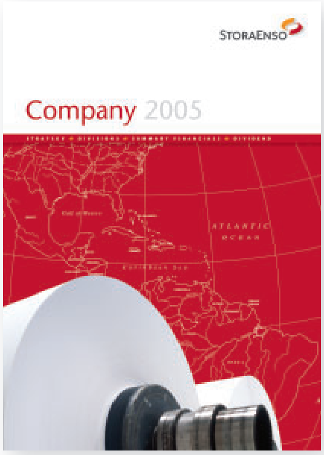
Graphic design: Incognito
Photos: Jarmo Hietaranta, Patrik Leonardsson, Ilpo Musto, Gaby Sommer, Sydvest, Mats Vuorenjuuri and Stora Enso image archive
Printing: Libris Oy
Cover stock: Ensogloss 240 g/m², Stora Enso, Imatra Mills
(ISO 14001-certified and EMAS-registered FIN-000009)
Text stock: LumiSilk 150 g/m², Stora Enso, Oulu Mill
(ISO 14001-certified and EMAS-registered FIN-000021)

STORAENSO

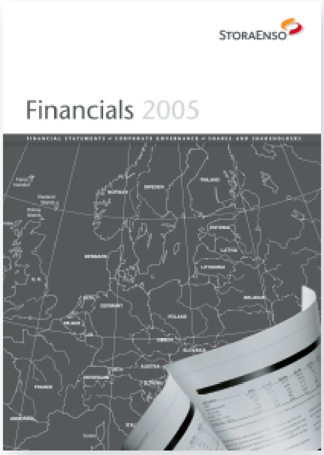
Financials 2005

FINANCIAL STATEMENTS • CORPORATE GOVERNANCE • SHARES AND SHAREHOLDERS

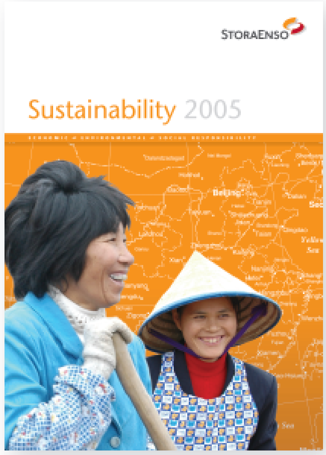
Stora Enso's Annual Report 2005 comprises three separate booklets



- Letter to shareholders
- Strategy and actions in 2005
- Divisional presentations
- Board of Directors and management



- Financial statements and notes
- Operating and financial review
- Corporate governance
- Shares and shareholders



- Sustainability governance, targets and performance
- Sustainability in value chain
  - raw materials and suppliers
  - the Group
  - markets
  - investors
  - society

Printed copies of the report may be ordered through our website at www.storaenso.com/order or by contacting any of the corporate offices (see back cover).

PUBLICATION DATES FOR 2006

2 February	Financial results for 2005
7 March	Annual Report 2005
26 April	Interim Review for January – March
April	Annual Report on Form 20-F
26 July	Interim Review for January – June
26 October	Interim Review for January – September

AGM AND DIVIDEND CALENDAR FOR 2006

10 March	Record date for AGM
21 March	Annual General Meeting (AGM)
22 March	Ex-dividend date
24 March	Record date for dividend
5 April	Dividend payment effected

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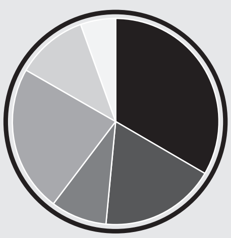
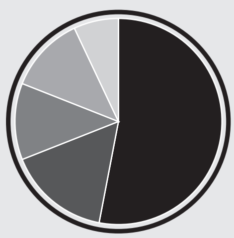
Contents

Sales by Segment



- Publication Paper.... 33.4%
- Fine Paper.............. 18.1%
- Merchants 8.8%
- Packaging Boards ... 23.0%
- Wood Products....... 11.2%
- Other...................... 5.5%

Core Business Drivers



- Advertising 53%
- Business.................... 16%
- Non-durable goods ... 12%
- Construction............. 12%
- Other.......................... 7%

Quarterly Data and Key Figures

Deliveries by Segment

1 000 tonnes	Q1/02	Q2/02	Q3/02	Q4/02	2002	Q1/03	Q2/03	Q3/03
Publication Paper	1 584	1 578	1 636	1 769	**6 567**	1 605	1 641	1 720
Fine Paper	861	849	853	832	**3 395**	863	845	848
Packaging Board	778	824	808	777	**3 187**	827	868	844
Total	**3 223**	**3 251**	**3 297**	**3 378**	**13 149**	**3 295**	**3 354**	**3 412**
Wood Products, 1 000 m^3	1 203	1 344	1 252	1 313	**5 112**	1 283	1 644	1 337
Corrugated board, million m^2	117	126	180	123	**546**	120	128	121

Sales by Segment

EUR million	Q1/02	Q2/02	Q3/02	Q4/02	2002	Q1/03	Q2/03	Q3/03
Publication Paper	1 206.5	1 186.4	1 180.7	1 246.9	**4 820.5**	1 098.6	1 087.4	1 122.8
Fine Paper	821.3	777.7	752.5	741.6	**3 093.1**	741.1	680.8	682.5
Merchants	211.7	183.4	155.8	169.7	**720.6**	176.1	155.4	139.5
Packaging Boards	766.2	781.9	758.6	736.8	**3 043.5**	776.6	779.2	761.9
Wood Products	286.1	320.8	314.1	314.2	**1 235.2**	316.5	385.6	335.5
Wood Supply	497.9	479.2	464.7	516.9	**1 958.7**	534.2	526.7	475.0
Other	-560.8	-496.4	-517.8	-514.0	**-2 089.0**	-544.0	-558.1	-529.8
Total	**3 228.9**	**3 233.0**	**3 108.6**	**3 212.1**	**12 782.6**	**3 099.1**	**3 057.0**	**2 987.4**

Operating Profit by Segment excluding Non-recurring Items and Goodwill

EUR million	Q1/02	Q2/02	Q3/02	Q4/02	2002	Q1/03	Q2/03	Q3/03
Publication Paper	116.0	67.9	117.2	93.6	**394.7**	37.0	2.6	42.0
Fine Paper	77.5	61.7	43.8	42.1	**225.1**	77.3	32.1	23.8
Merchants	-1.0	1.8	1.2	3.4	**5.4**	1.5	-1.2	-1.5
Packaging Boards	98.2	68.5	113.7	75.9	**356.3**	90.3	61.6	84.8
Wood Products	10.6	13.5	9.2	11.2	**44.5**	7.0	14.9	-4.7
Wood Supply	23.0	25.3	24.9	21.4	**94.6**	34.5	33.8	23.0
Other areas	-15.7	-13.9	-18.9	-22.9	**-71.4**	-7.5	-12.2	-7.1
Operating Profit excl. Non-recurring Items	**308.6**	**224.8**	**291.1**	**224.7**	**1 049.2**	**240.1**	**131.6**	**160.3**
Goodwill amortisation	-41.1	-41.2	-42.0	-24.5	**-148.8**	-32.1	-28.0	-23.5
Non-recurring items	-	51.6	-1 229.5	99.8	**-1 078.1**	-	-	-39.9
Operating Profit Total (IFRS)	**267.5**	**235.2**	**-980.4**	**300.0**	**-177.7**	**208.0**	**103.6**	**96.9**
Net financial items	-45.2	-44.0	-56.2	-60.8	**-206.2**	-81.3	-11.3	-23.4
Share of results of associated companies	11.7	8.4	-2.4	-3.1	**14.6**	-0.5	-8.5	-9.0
Profit Before Tax and Minority Interests	**234.0**	**199.6**	**-1 039.0**	**236.1**	**-369.3**	**126.2**	**83.8**	**64.5**
Income tax expense	-77.5	-66.4	38.5	233.9	**128.5**	-39.9	-27.4	-21.1
Net Profit for the Period	**156.5**	**133.2**	**-1 000.5**	**470.0**	**-240.8**	**86.3**	**56.4**	**43.4**

Q4/03	2003	Q1/04	Q2/04	Q3/04	Q4/04	2004	Q1/05	Q2/05	Q3/05	Q4/05	2005
1 822	**6 788**	1 708	1 799	1 826	1 981	**7 315**	1 685	1 708	1 734	1 881	**7 008**
857	**3 413**	885	888	901	922	**3 596**	960	808	811	942	**3 521**
811	**3 350**	874	886	859	880	**3 499**	929	873	890	929	**3 621**
3 490	**13 551**	**3 467**	**3 573**	**3 586**	**3 783**	**14 410**	**3 574**	**3 389**	**3 435**	**3 752**	**14 150**
1 558	**5 822**	1 597	1 777	1 595	1 695	**6 664**	1 541	1 855	1 639	1 706	**6 741**
131	**500**	132	146	144	148	**570**	206	213	215	221	**855**

Q4/03	2003	Q1/04	Q2/04	Q3/04	Q4/04	2004	Q1/05	Q2/05	Q3/05	Q4/05	2005
1 196.7	**4 505.5**	1 076.9	1 130.9	1 144.3	1 269.3	**4 621.4**	1 104.4	1 125.3	1 166.0	1 280.2	**4 675.9**
656.2	**2 760.6**	664.1	651.3	674.7	678.7	**2 668.8**	708.7	618.3	625.4	737.9	**2 690.3**
156.6	**627.6**	160.3	148.5	145.7	183.4	**637.9**	182.1	217.4	295.2	478.5	**1 173.2**
665.2	**2 982.9**	764.7	777.9	742.6	768.2	**3 053.4**	794.5	768.2	788.7	838.8	**3 190.2**
362.4	**1 400.0**	373.1	419.2	388.5	386.0	**1 566.8**	366.9	433.7	398.0	389.7	**1 588.3**
538.4	**2 074.3**	634.9	621.4	568.3	657.0	**2 481.6**	674.7	563.2	612.4	651.6	**2 501.9**
-546.7	**-2 178.6**	-656.1	-646.3	-631.0	-700.7	**-2 634.1**	-686.4	-538.8	-666.5	-740.6	**- 2 632.3**
3 028.8	**12 172.3**	**3 017.9**	**3 102.9**	**3 033.1**	**3 241.9**	**12 395.8**	**3 144.9**	**3 187.3**	**3 219.2**	**3 636.1**	**13 187.5**

Q4/03	2003	Q1/04	Q2/04	Q3/04	Q4/04	2004	Q1/05	Q2/05	Q3/05	Q4/05	2005
47.4	**129.0**	14.8	6.9	44.4	38.5	**104.6**	21.6	31.5	67.9	72.3	**193.3**
5.7	**138.9**	12.4	-2.2	30.4	13.9	**54.5**	48.1	-13.6	-1.2	28.9	**62.2**
-5.5	**-6.7**	3.3	2.4	1.6	3.9	**11.2**	2.7	1.6	0.9	-1.9	**3.3**
47.5	**284.2**	82.3	64.6	84.8	39.6	**271.3**	72.0	11.9	73.5	62.6	**220.0**
9.3	**26.5**	11.4	21.3	10.9	-8.9	**34.7**	-4.0	9.9	-1.8	-7.2	**-3.1**
25.2	**116.5**	31.3	3.3	3.1	-5.4	**32.3**	3.1	-10.9	-0.3	-3.7	**-11.8**
-19.8	**-46.6**	-29.4	-15.9	-21.9	-14.7	**-81.9**	-30.8	-12.7	-32.8	-30.1	**-106.4**
109.8	**641.8**	**126.1**	**80.4**	**153.3**	**66.9**	**426.7**	**112.7**	**17.7**	**106.2**	**120.9**	**357.5**
-32.4	**-116.0**	-22.7	-21.9	-21.7	-24.0	**-90.3**	-	-	-	-	-
-14.5	**-54.4**	115.7	-	74.1	179.9	**369.7**	-	-12.0	-	-439.4	**-451.4**
62.9	**471.4**	**219.1**	**58.5**	**205.7**	**222.8**	**706.1**	**112.7**	**5.7**	**106.2**	**-318.5**	**-93.9**
-121.7	**-237.7**	-20.3	-26.2	-27.0	-32.5	**-106.0**	-43.1	-34.6	-25.0	-48.9	**-151.6**
-5.0	**-23.0**	-2.3	16.7	10.2	14.3	**38.9**	14.0	17.0	11.8	24.4	**67.2**
-63.8	**210.7**	**196.5**	**49.0**	**188.9**	**204.6**	**639.0**	**83.6**	**-11.9**	**93.0**	**-343.0**	**-178.3**
21.4	**-67.0**	214.6	5.0	-56.6	-54.2	**108.8**	-23.6	3.3	-26.5	98.8	**52.0**
-42.4	**143.7**	**411.1**	**54.0**	**132.3**	**150.4**	**747.8**	**60.0**	**-8.6**	**66.5**	**-244.2**	**-126.3**

Condensed Balance Sheet

EUR million	1997	1998	1999	2000	2001	2002	2003	2004	2005
	As at 31 December								
Fixed assets and other long term investments	11 885	11 704	11 905	16 379	16 178	13 245	13 449	12 091	13 018
Current assets	3 690	3 718	4 133	4 944	4 380	4 969	4 493	4 321	5 077
Assets	**15 575**	**15 422**	**16 038**	**21 323**	**20 558**	**18 214**	**17 942**	**16 412**	**18 095**
Shareholders' equity	5 513	5 170	5 866	8 461	8 870	8 020	7 938	8 036	7 645
Minority interests	272	279	202	149	50	30	60	136	94
Interest-bearing liabilities	6 565	6 558	5 769	6 856	6 409	5 176	5 174	4 028	6 084
Operating liabilities	1 712	1 943	2 485	3 083	2 777	2 719	2 646	2 546	2 817
Tax liabilities	1 512	1 472	1 716	2 774	2 452	2 269	2 124	1 666	1 455
Equity and Liabilities	**15 575**	**15 422**	**16 038**	**21 323**	**20 558**	**18 214**	**17 942**	**16 412**	**18 095**

Key Figures 1997–2005

EUR million	1997	1998	1999	2000	2001	2002	2003	2004	2005
Sales	9 998	10 490	10 636	13 017	13 509	12 783	12 172	12 396	13 188
% change on previous year	5.1	4.9	1.4	22.4	3.8	-5.4	-4.8	1.8	6.4
Wages and salaries	1 737	1 805	1 738	2 023	2 246	2 308	2 298	*1 937	2 217
% of sales	17.4	17.2	16.3	15.4	16.6	18.1	18.9	15.6	16.8
EBITDA	1 747	1 877	2 328	3 472	2 743	2 288	1 672	1 878	1 334
Depreciation	806	1 111	849	1 041	1 116	1 397	1 084	1 082	1 420
Goodwill amortisation and impairments	48	65	62	88	152	1 069	116	90	8
Operating profit	893	701	1 416	2 344	1 475	-178	471	706	-94
% of sales	8.9	6.7	13.3	18.0	10.9	-1.4	3.9	5.7	-0.7
Non-recurring items	-52	-471	103	445	-8	-1 078	-54	370	-451
Operating profit excl. non-recurring items	945	1 172	1 314	1 899	1 483	900	526	336	357
% of sales	9.5	11.2	12.4	14.6	11.0	7.0	4.3	2.7	2.7
Share of profits in associated companies	17	10	10	21	80	15	-23	39	67
Net financial expense	280	380	267	293	344	206	238	106	152
% of sales	2.8	3.6	2.5	2.3	2.5	1.6	2.0	0.9	1.1
Profit after net financial items	630	331	1 160	2 071	1 211	-369	211	639	-178
% of sales	6.3	3.2	10.9	15.9	9.0	-2.9	1.7	5.2	-1.4
Profit after net financial items excl. non-recurring items	682	802	1 057	1 626	1 219	709	319	269	273
% of sales	6.8	7.6	9.9	12.5	9.0	5.5	2.6	2.2	2.1
Taxes	-204	-146	-397	-642	-296	129	-67	109	52
Net profit (attributable to Company shareholders)	405	185	758	1 415	918	-241	138	740	-130
Dividend	254	268	304	407	404	392	388	376	365
Capital expenditure	1 134	896	740	769	857	878	1 248	980	1 145
% of sales	11.3	8.5	7.0	5.9	6.3	6.9	10.3	7.9	8.7
R&D expenditure	79	80	84	95	92	92	89	82	88
% of sales	0.8	0.8	0.8	0.7	0.7	0.7	0.7	0.7	0.7
Operating capital	13 057	12 520	12 489	16 402	16 231	13 079	13 527	12 150	13 378
Capital employed	11 557	11 023	10 851	13 793	13 948	11 105	11 598	10 656	12 103
Interest-bearing net liabilities	6 090	5 783	5 524	5 396	5 127	3 267	3 919	3 051	5 084
ROCE, %	8.0	6.2	12.9	19.0	10.6	-1.4	4.0	6.3	-0.8
ROCE excluding non-recurring items, %	8.5	10.4	12.0	15.4	10.6	7.2	4.5	3.0	3.1
Return on equity (ROE), %	7.5	3.3	12.8	19.7	10.4	-2.8	1.7	9.2	-1.6
Equity ratio, %	37.2	36.0	38.4	40.6	43.8	44.3	44.7	49.8	42.8
Debt/Equity ratio	1.05	1.04	0.90	0.63	0.58	**0.37	0.49	0.38	0.66
Average number of employees	40 301	40 987	40 226	41 785	44 275	43 853	44 264	43 779	46 166

* Including income relating to the change in the Finnish disability pension scheme

** Adjusted with the initial valuation of IAS 41, Agriculture

Corporate Governance

Responsibility is one of Stora Enso's core values, and in governance terms it translates into a strong commitment to sound principles of corporate governance and sustainability. Stora Enso strives to comply with current governance rules and regulations, and to apply best practices in the field of governance.

General Governance Issues

The duties of the various bodies within Stora Enso Oyj (Stora Enso or the Company) are determined by the laws of Finland and by the Company's corporate governance policy, which complies with the Finnish Companies Act and Finnish Securities Market Act. The rules and recommendations of the Helsinki, Stockholm and New York stock exchanges are also followed, where applicable. This corporate governance policy is decided by the Board of Directors (Board).

The Board and the Chief Executive Officer (CEO) are responsible for the management of the Company. Other governance bodies have an assisting and supporting role.

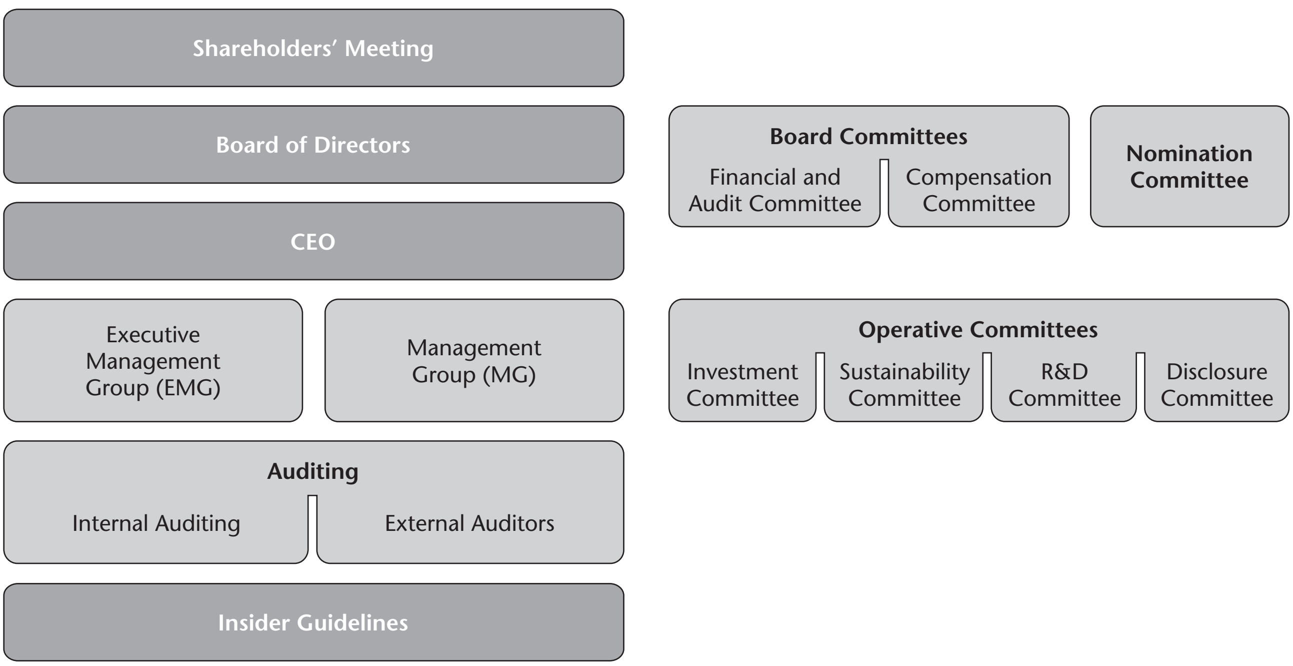
Stora Enso prepares annual and interim financial accounts conforming to International Financial Reporting Standards (IFRS). These reports are published in Finnish, Swedish, English and German. In addition, Stora Enso makes an annual reconciliation with US GAAP (Form 20-F).

The Company's head office is in Helsinki, Finland. It also has an international office in London, United Kingdom and head office functions in Stockholm, Sweden.

Stora Enso has one or two official auditors, as decided by the shareholders at the Annual General Meeting (AGM).

To the maximum extent possible, corporate actions and corporate records are taken and recorded in English.

Objectives and Composition of Governance Bodies



The decision-making bodies with responsibility for managing the Company are the Board and the CEO. The operations of the Company are co-ordinated through the Executive Management Group (EMG), Management Group (MG) and various committees.

Day-to-day operational responsibility rests with the divisional managements and their operation teams supported by various staff and service functions.

Board of Directors

Stora Enso is managed by the Board under international corporate governance principles.

According to the Company's articles of association, the Board comprises 6–11 ordinary members appointed by the shareholders at the AGM for a one-year term. It is the policy of the Company that the Board shall have of a majority of independent directors. To be considered "independent", the Board must resolve that a director has no material relationship with the Company other than as a director. Currently, the Board has ten ordinary members: nine non-executive members who are independent and not affiliated with Stora Enso and one executive member (CEO).

All directors are required to deal at arm's length with the Company and its subsidiaries and to disclose circumstances that might be perceived as a conflict of interest.

The shareholders at the AGM decide the remuneration of the Board members (including the remuneration of the members of the Board Committees). As a policy, remuneration is paid to non-executive members only.

The Board supervises the operation and management of Stora Enso and decides on significant matters relating to strategy, investments, organisation and finance.

The Board is responsible for overseeing management and for the proper organisation of Company operations. It is likewise responsible for overseeing the proper supervision of accounting and control of financial matters.

The Board has defined a working order, the principles of which are published in the annual report and on the Company's website.

The Board elects a Chairman and a Vice Chairman from among the non-executive Board members and appoints the CEO and heads of divisions and staff functions. The Board approves the main organisational structure of the Company.

The Board reviews and determines the compensation of the CEO.

The Board evaluates its performance annually. The Board also reviews the corporate governance policy annually and amends it when required.

The Board's work is supported through its committees – the Financial and Audit Committee and the Compensation Committee. Each committee's chairman and members are appointed by the Board annually.

The Board meets at least five times a year. The non-executive Board members meet regularly without executive members in connection with the Board meetings.

Working Order of the Board of Directors

The working order describes the working practices of the Board of Directors. A summary of key contents is presented below.

Board Meetings

- Regularly, at least five times a year, according to a schedule decided in advance
- Special Board Meetings shall, if requested by a Board member or the CEO, be held within 14 days of the date of request
- Agenda and material shall be delivered to Board members one week before the meeting

Information

- The Board shall receive information monthly concerning financial performance, the market situation and significant events within the Company's and the Group's operations
- Board members shall be informed about all significant events immediately

Matters to be handled at Board Meetings

- Matters specified by the Finnish Companies Act
- Approval of Business Strategy
- Matters concerning organisation and personnel
  - Decisions concerning the basic top management organisation
  - Decisions concerning the composition of the Executive Management Group
  - Remuneration of the CEO
  - Appointment and dismissal of the CEO and heads of divisions and other senior officers in the EMG
  - Appointment of Board Committees (including chairmen)
- Economic and financial matters
  - Review of annual budget
  - Approval of loans and guarantees
- Investment matters
  - Approval of Group's investment policy
  - Approval of major investments
- Other matters
  - Report of the CEO on the Group's operations
  - Reports of the Compensation Committee and Financial and Audit Committee by the chairmen of the respective committees. The Nomination Committee's recommendations and proposals shall be reported to the Board by the Chairman of the Board.
  - Approval and regular review of Corporate Governance and the charters of the Board Committees
  - Annual self-assessment of Board work and performance
- Other matters submitted by a member of the Board or the CEO

In 2005

The Board of Directors had eleven members until the AGM on 22 March 2005 and subsequently ten members. The Board convened seven times. On average directors attended 90% of the meetings.

Board Remuneration

EUR	Chairman	Vice Chairman	Board Member
2005	135 000	85 000	60 000
2004	135 000	85 000	60 000
2003	135 000	85 000	60 000

Details of Board Remuneration are shown in Note 7 on page 61.

Board Interests as of 31 December 2005

	A shares	R shares
Claes Dahlbäck, Chairman	2 541	19 529
Ilkka Niemi, Vice Chairman	-	-
Gunnar Brock	-	4 000
Lee A. Chaden	-	*3 500
Harald Einsmann	-	*4 800
Jukka Härmälä, CEO	-	8 932
Birgitta Kantola	-	1 500
Jan Sjöqvist	508	1 943
Matti Vuoria	-	9 000
Marcus Wallenberg	2 541	4 715

* ADRs representing R shares

Chief Executive Officer (CEO)

The CEO is in charge of the day-to-day management of the Company in accordance with instructions and orders issued by the Board. It is the duty of the CEO to ensure that the Company's accounting methods comply with the law and that financial matters are handled in a reliable manner.

The CEO is directly in charge of the following: monitoring and coaching the Publication Paper, Fine Paper, Packaging Boards and Forest Products divisions, business strategy (corporate strategy and emerging markets), finance (financing, accounting, legal affairs and investor relations), market services, corporate communications, corporate support (environment, energy, procurement and R&D) and human resources (corporate IT, human resources and business excellence) as well as preparatory work with regard to Board meetings. In addition, he or she supervises decisions regarding key personnel and other important operational matters.

The Chief Financial Officer (CFO), who is responsible for financing, accounting, legal affairs and investor relations, also acts as a deputy to the CEO.

Executive Management Group (EMG)

The EMG is chaired by the CEO. The EMG members are appointed by the Board. At year-end, it comprised the CFO, four divisional heads (Publication Paper, Fine Paper, Packaging Boards and Forest Products) and the heads of Market Services, Corporate Support, Corporate Strategy and Emerging Markets, and Corporate IT and Human Resources.

The EMG's tasks and responsibilities are investment planning and follow-up, control of mergers and acquisitions and divestments, preparation of strategic guidelines, allocation of resources, review of key day-to-day operations and operational decisions, preparatory work with regard to Board meetings and review of the main features of the sales network.

The EMG meets regularly, approximately once a month, and as required.

In 2005

The EMG had twelve members and convened twenty times. Important items on the agenda in 2005 were planning and deciding on the Asset Performance Review and Profit 2007 programme, and decision on the acquisition of Schneidersöhne Group.

EMG interests as of 31 December 2005 are shown in Note 29, page 98. EMG remuneration is disclosed in Note 7, page 62.

Management Group (MG)

The tasks and responsibilities of the MG are to review the budget, Company strategy and business development.

The MG is chaired by the CEO. The MG comprises members of the EMG and additional members appointed by the CEO.

The MG meets approximately four times a year.

In 2005

The MG had twenty-five members and convened four times.

MG interests as of 31 December 2005 are shown in Note 29, page 98.

Board Committees

The tasks and responsibilities of the Board Committees are defined in their charters, which are approved by the Board. All the committees evaluate their performance annually, are allowed to use external consultants and experts when necessary and shall have access to all information needed. Each committee's chairman and members are appointed by the Board annually.

Financial and Audit Committee

The Board has a Financial and Audit Committee to support the Board in maintaining the integrity of the Company's financial reporting and the Board's control functions. It regularly reviews the system of internal control, management and reporting of financial risks and the audit process. It makes recommendations regarding the appointment of external auditors for the parent company and the main subsidiaries.

The Committee is comprised of 3–5 non-executive board members who are independent and not affiliated with the Company. At least one Committee member must be a financial expert who has significant knowledge and experience in accounting and accounting principles applicable to the Company. The Financial and Audit Committee meets regularly at least twice a year. The Committee members meet the external auditor without the management being present in connection with its meetings. The Chairman of the Committee presents a report on each Financial and Audit Committee meeting to the Board. The tasks and responsibilities of the Financial and Audit Committee are defined in its charter, which is approved by the Board. Financial and Audit Committee members may receive compensation solely based on their role as directors. The compensation is decided upon by the shareholders at an AGM.

Summary of Charter

Main Tasks

- To support the Board in maintaining the integrity of the Company's financial reporting and the Board's control functions
- Regularly to review the system of internal control, management and reporting of financial risks and the audit process
- To make recommendations regarding the appointment of external auditors for the parent company and the main subsidiaries

Composition

- 3–5 non-executive Board members who are independent and not affiliated with the Company
- At least one Committee member must be a financial expert who has significant knowledge and experience in accounting and accounting principles applicable to the Company
- Financial and Audit Committee members may receive compensation based solely on their role as Directors, such compensation to be decided by the shareholders at an AGM

Meetings and Reporting to the Board

- The Financial and Audit Committee meets regularly at least twice a year
- Regular participants in the Committee's meetings
  - External Auditors
  - Head of Internal Audit, CFO and Legal Counsel acting as secretary to the Committee
  - Other persons such as SVP Finance, General Counsel and Group Controller invited by the Chairman
- The Committee members meet the external auditors without the management being present in connection with its meetings
- The Chairman of the Committee presents a report on each Financial and Audit Committee meeting to the Board

In 2005

The Financial and Audit Committee comprised five members in 2005. As of 22 March 2005 the members were Jan Sjöqvist (Chairman and appointed Financial Expert), Lee A. Chaden, Claes Dahlbäck, Birgitta Kantola and Ilkka Niemi. The committee convened four times. In addition to the regular tasks based on the Committee's charter, during 2005 the Committee focused on the review of preparations for the internal control assessment pursuant to Section 404 of the Sarbanes-Oxley Act.

Remuneration

Chairman EUR 10 000 per annum and member EUR 7 000 per annum as decided by the AGM.

Compensation Committee

The Board has a Compensation Committee that is responsible for recommending, evaluating and approving executive nominations and compensations (including CEO), evaluating the performance of the CEO, and making recommendations to the Board relating to management compensation issues generally, including equity incentive compensation plans. The Board appoints the CEO and approves his/her compensation.

The Committee is comprised of 3–4 non-executive board members who are independent and not affiliated with the Company. The Compensation Committee meets regularly at least once a year. The Chairman of the Committee presents a report on each Compensation Committee meeting to the Board. The tasks and responsibilities of the Compensation Committee are defined in its charter, which is approved by the Board.

Summary of Charter

Main Tasks

- Responsible for recommending, evaluating and approving executive nominations and compensations (including CEO)
- To evaluate the performance of the CEO
- To make recommendations to the Board relating to management compensation issues
- The Board appoints the CEO and approves his/her compensation

Composition

- 3–4 non-executive board members who are independent and not affiliated with the Company

Meetings and Reporting to the Board

- Regularly at least once a year
- The Chairman presents a report on each Compensation Committee meeting to the Board

In 2005

The Compensation Committee comprised four members in 2005. As of 22 March 2005 the members were Claes Dahlbäck (Chairman), Harald Einsmann, Ilkka Niemi and Matti Vuoria. The Committee convened five times. During 2005 the main tasks were to prepare Stora Enso's top management's salary and other benefit matters, the bonus plan of the CEO and the stock option scheme principles for the year 2005.

Remuneration

Chairman EUR 5 000 per annum and member EUR 3 000 per annum as decided by the AGM.

Nomination Committee appointed by the shareholders

Shareholders have appointed a Nomination Committee to prepare proposals concerning (a) the number of members of the Board of Directors, (b) the members of the Board of Directors, (c) remuneration for the Chairman, Vice Chairman and members of the Board of Directors and (d) the remuneration for the Chairman and members of the committees of the Board of Directors.

The Nomination Committee comprises four members:

- the Chairman of the Board of Directors
- the Vice Chairman of the Board of Directors
- two members appointed annually by the two largest shareholders (one each) according to the share register of 1 October.

The Chairman of the Board of Directors convenes the Nomination Committee. A Nomination Committee member who is also a member of the Board of Directors may not be the Chairman of the Nomination Committee. The Nomination Committee presents its proposal for the Annual General Meeting to the Board of Directors annually before 31 January.

In 2005

Until the AGM on 22 March 2005 the Nomination Committee was a Board Committee comprising four members, Krister Ahlström (Chairman), Claes Dahlbäck, Harald Einsmann and Ilkka Niemi. At the AGM, as explained above, the shareholders appointed a Nomination Committee comprising four members, the Chairman of the Board (Claes Dahlbäck), the Vice Chairman of the Board (Ilkka Niemi) and two other members appointed by the two largest shareholders, Markku Tapio (Finnish State) and Marcus Wallenberg (Knut and Alice Wallenberg Foundation). This procedure is different from the Helsinki Stock Exchange's recommendation that a Nomination Committee should be a Board Committee. Markku Tapio was elected Chairman of the Committee at its first meeting. During 2005 the main tasks of the Committee were to prepare the proposal for AGM concerning Board members and their remuneration. The Nomination Committee convened twice.

Remuneration

Remuneration of EUR 3 000 per annum is paid to members who are not members of the Board as decided by the AGM.

Operative Committees

Investment Committee

The Investment Committee is chaired by the Executive Vice President, Corporate Strategy. The Committee's members are appointed by the CEO.

The tasks and responsibilities of the Investment Committee are co-ordination of the investment planning and approval process, co-ordination of the investment completion audit and follow-up process, participation in the planning and execution of large investment projects in the Company's various geographical areas, and the drawing-up of recommendations on funds available for investments.

The Investment Committee meets at least six times a year and as required.

In 2005

The Investment Committee examined several major investment proposals and made recommendations on the allocation of divisional funds for consideration by the EMG. Important items on the agenda in 2005 were Hylte boiler 2 rebuild, Fors BM 2 and boiler 3 rebuild, restructuring of corrugated board production in Finland and the Schneidersöhne acquisition. M&A Guidelines, updated Investment Guidelines and Implementation Guidelines were also prepared and taken into use. In addition, the Committee audited 20 major projects started in 2003 and 2004 to collect experiences for future use and to secure technology transfer in the Company. The Investment Committee had seven members and convened fourteen times in 2005.

Sustainability Committee

The Sustainability Committee is chaired by the Head of Corporate Support. The Committee's members, representing the relevant staff groups and divisions, are appointed by the CEO.

The tasks of the Sustainability Committee are to formulate corporate policy and strategy in environmental and corporate social responsibility matters, to ensure that these policies and strategies are well established and respected throughout the Company, to co-ordinate and follow-up relations and communication with stakeholders such as governmental and non-governmental organisations, to take initiatives for the development of relevant management procedures and to produce the annual Sustainability Report.

The Sustainability Committee meets regularly as required.

In 2005

Important items on the agenda in 2005 were sustainability principles for wood and fibre procurement, progress towards sustainability targets, management of stakeholder engagement, enforcement of the Code of Ethics, feedback on the Sustainability 2004 report by an external assurance provider and the structure and content of the Group's Sustainability 2005 report. The Sustainability Committee had thirteen members and convened twice in 2005. Read more about Sustainability governance in the Sustainability 2005 report on pages 6–7.

Research and Development (R&D) Committee

The R&D Committee is chaired by the Head of Corporate Support. The Committee's members, representing the R&D organisation and the divisions, are appointed by the CEO.

The tasks of the R&D Committee are to secure a Group perspective on R&D in the Group with regard to its relevance, quality and efficiency, to initiate R&D policy and strategy at Group level, to monitor Group R&D and to supervise Company-financed R&D undertaken externally. In order to facilitate these tasks, the R&D committee must monitor technology and future-oriented product development.

The R&D Committee meets regularly as required.

In 2005

Important items on the agenda in 2005 were development and expansion of the corporate venturing, governance and funding of new technology development, and Stora Enso's participation in Forest-Based Sector Technology Platform and in preparing its Strategic Research Agenda. The R&D Committee had nine members and convened twice in 2005.

Disclosure Committee

The Disclosure Committee supervises the reliability of the Company financial reporting and disclosure processes. The Committee is chaired by the Group Controller, and the other permanent members are the head of Internal Auditing and the General Counsel. Other members are nominated by the CEO as required. The Disclosure Committee reports to the CEO and the CFO.

The Disclosure Committee meets regularly as required.

In 2005

The main tasks in 2005 were reviewing the Group's stock exchange releases, interim reviews and annual report. In addition the Committee followed-up the programme initiated to ensure compliance with the Sarbanes-Oxley Act Section 404, Management Assessment of Internal Controls. The Disclosure Committee had three members and convened ten times.

Other Supervisory Bodies and Norms

Auditors
The shareholders at the AGM annually elect one or two auditors for Stora Enso. The Financial and Audit Committee monitors the auditor selection process and gives its recommendation as to who should serve as auditor to the Board and to the shareholders at the AGM. The auditor(s) shall be an authorised public accounting firm or firms, which then appoint(s) the auditor responsible.

Internal Auditing
Stora Enso has a separate internal auditing organisation. The role of Internal Auditing is to provide independent, objective assurance and consulting services that add value and improve the Group's operations. It helps the Group to accomplish its objectives by providing a systematic, disciplined approach to evaluate and improve the effectiveness of internal control, risk management and governance processes.

To ensure the independence of the Internal Auditing department, its personnel report to the Internal Auditing Director, who reports functionally to the Financial and Audit Committee and CEO, and administratively to the CFO.

Internal Auditing conducts regular audits at mills, subsidiaries and other Company units, implementing an annual audit plan approved by the Financial and Audit Committee, including any special tasks or projects requested by management and the Financial and Audit Committee.

Insider Guidelines
The Company complies with the insider guidelines of the Helsinki Stock Exchange. The Company's internal insider guidelines were updated in 2005 to comply with new legislation following the EU Market Abuse Directive. The guidelines are published and distributed throughout the Group.

The Company expects all its employees to act in the way required of an insider. All unpublished information relating to the Company's present and future business operations shall be kept strictly confidential.

The Company's insider register is publicly available and is maintained by the Finnish Central Securities Depository.

Public insiders are members of the Board, the CEO and his/her deputy, and the auditors. The CEO has decided that other public insiders shall be the members of the EMG and nominated persons in legal, financial, accounting, corporate strategy, communications and investor relations functions.

The list of company-specific insiders is approved by the General Counsel and it is not public. Company-specific insiders are for example members of the MG and members of the Corporate Accounting and Corporate Strategy teams.

Persons who participate in the development and preparation of a project such as a merger or acquisition are considered project-specific insiders. A separate project-specific insider register is maintained when considered appropriate by the General Counsel or his or her Deputy.

During the closed period insiders are not allowed to trade in the Company's securities. The period starts two weeks prior to the date when the results of a reporting period are announced. The dates are published in the financial calendar at www.storaenso.com/investors.

US Capital Markets Rules and Requirements
In relation to Section 302 of the Sarbanes-Oxley Act, Stora Enso has introduced procedures that require the respective management of the divisions and subsidiaries to certify the internal controls over the financial reporting process. These procedures and certifications provide the basis on which the CEO and the CFO of Stora Enso certify the consolidated financial statements with the Securities and Exchange Commission.

The provisions of Section 404 of the Act will require Stora Enso's management to report on the effectiveness of internal control over financial reporting in its Annual Report on Form 20-F. The first requirement for this report is for the year ending 31 December 2006. Stora Enso has undertaken a significant project to document and test its internal control over financial reporting in the format required by the Act. This project is on schedule to support certification as at 31 December 2006.

Visit www.storaenso.com/governance for updated information about Stora Enso's Corporate Governance.

Shares and Shareholders

Share Capital

In accordance with the Articles of Association, the minimum share capital of Stora Enso Oyj (hereafter “Company” or “Stora Enso”) is EUR 850 million and the maximum EUR 3 400 million within which limits the share capital may be increased or decreased without amending the Articles of Association. The nominal value of the shares is EUR 1.70 per share. On 31 December 2005 the Company’s fully paid-up share capital entered in the Finnish Trade Register was EUR 1 382.1 million.

Changes in Share Capital 1998–2005

	No. of A Shares Issued	No. of R Shares Issued	Total No. of Shares	Share Capital (FIM million)	Share Capital (EUR million)
Enso Oyj, 1 Jan 1998	116 729 125	194 361 705	311 090 830	3 110.9	-
Conversion of A shares into R shares, 7–11 Sep 1998	-1 357 954	1 357 954	-	-	-
Conversion of STORA A and B shares into Stora Enso Oyj A and R shares, 23 Dec 1998	128 023 484	320 465 375	448 488 859	1 374.0	-
Stora Enso Oyj, 31 Dec 1998	**243 394 655**	**516 185 034**	**759 579 689**	**7 595.8**	-
Conversion of A shares into R shares, 6–24 Sep 1999	-34 443 467	34 443 467	-	-	-
Warrants exercised and registered during the year	-	30 000	30 000	-	-
Stora Enso Oyj, 31 Dec 1999	**208 951 188**	**550 658 501**	**759 609 689**	**7 596.1**	-
Warrants exercised and registered during the year	-	246 000	246 000	-	-
Conversion of share capital into euro denomination, 4 May 2000	-	-	-	-	1 291.8
Share issue (Consolidated Papers, Inc.), new R shares in ADR form, 11 Sep 2000	-	167 367 577	167 367 577	-	284.5
Conversion of A shares into R shares, 16–27 Oct 2000	-14 454 732	14 454 732	-	-	-
Stora Enso Oyj, 31 Dec 2000	**194 496 456**	**732 726 810**	**927 223 266**	-	**1 576.3**
Warrants exercised and registered during the year	-	2 700 733	2 700 733	-	-
Cancellation of repurchased shares, 9 Apr 2001	-910 600	-22 260 100	-23 170 700	-	-39.4
Conversion of A shares into R shares, 17–28 Sep 2001	-9 312 271	9 312 271	-	-	-
Stora Enso Oyj, 31 Dec 2001	**184 273 585**	**722 479 714**	**906 753 299**	-	**1 541.5**
Warrants exercised and registered during the year	-	1 158 000	1 158 000	-	-
Cancellation of repurchased shares, 3 Apr 2002	-813 200	-7 319 800	-8 133 000	-	-13.8
Conversion of A shares into R shares, 16–27 Sep 2002	-1 143 700	1 143 700	-	-	-
Stora Enso Oyj, 31 Dec 2002	**182 316 685**	**717 461 614**	**899 778 299**	-	**1 529.6**
Warrants exercised and registered during the year	-	78 000	78 000	-	-
Cancellation of repurchased shares, 31 Mar 2003	-93 800	-35 500 000	-35 593 800	-	-60.5
Conversion of A shares into R shares	-1 011 805	1 011 805	-	-	-
Stora Enso Oyj, 31 Dec 2003	**181 211 080**	**683 051 419**	**864 262 499**	-	**1 469.3**
Warrants exercised and registered during the year	-	789 000	789 000	-	-
Cancellation of repurchased shares, 5 Apr 2004	-8 100	-27 800 000	-27 808 100	-	-47.3
Conversion of A shares into R shares, Jan–Nov 2004	-2 154 457	2 154 457	-	-	-
Stora Enso Oyj, 31 Dec 2004	**179 048 523**	**658 194 876**	**837 243 399**	-	**1 423.3**
Cancellation of repurchased shares, 31 Mar 2005	-16 300	-24 250 000	-24 266 300	-	-41.2
Conversion of A shares into R shares, Dec 2004–Nov 2005	-872 445	872 445	-	-	-
Stora Enso Oyj, 31 Dec 2005	**178 159 778**	**634 817 321**	**812 977 099**	-	**1 382.1**

Shares and Voting Rights

The Company's shares are divided into A and R shares. All shares entitle holders to an equal dividend but different voting rights. Each A share and each ten R shares carry one vote at the AGM. However, each shareholder has at least one vote. On 31 December 2005 the total number of shares was 812 977 099 and the number of votes 241 641 510.

Share Listings

Stora Enso shares are listed on the Helsinki and Stockholm stock exchanges. The R shares are also listed in ADR form on the New York Stock Exchange. Stora Enso shares are quoted in Helsinki in euros (EUR), in Stockholm in Swedish krona (SEK), and in New York in US dollars (USD).

American Depositary Receipts (ADRs)

Stora Enso R shares are traded on the New York Stock Exchange (NYSE) in ADR form under the SEO ticker. ADR issuances and cancellations are carried out by Deutsche Bank Trust Company Americas, which acts as depositary bank for the Stora Enso ADR programme.

The exchange rate between Stora Enso ADRs and R shares is 1:1, i.e. one ADR represents one Stora Enso R share. In 2005 the trading volume on the NYSE was approximately 2% of the total trading volume on all three exchanges.

Share Registers

The Company's shares are entered in the Book-Entry Securities System maintained by the Finnish Central Securities Depository (APK), which also maintains the official share register of Stora Enso Oyj. On 31 December 2005, 161 203 926 of the Company's shares were registered in the Swedish Securities Register Centre as VPC shares and 94 484 625 of the Company's R shares were registered in ADR form in Deutsche Bank Trust Company Americas.

Distribution by Book-Entry System, 31 December 2005

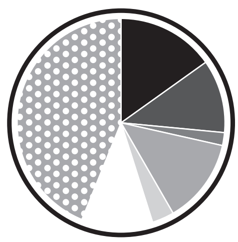
Number of Shares	A shares	R shares	Total
FCSD registered (Finnish Central Securities Depository)	103 567 436	453 721 112	557 288 548
VPC-registered (Swedish Securities Register Centre)*	74 592 342	86 611 584	161 203 926
Deutsche Bank administered ADRs*	-	94 484 625	94 484 625
FCSD waiting list	-	-	-
FCSD joint account	-	-	-
Total	**178 159 778**	**634 817 321**	**812 977 099**

* VPC-registered shares and ADRs are both nominee registered in the FCSD

Ownership Distribution, 31 December 2005

	% of shares	% of votes	% of shareholders
Finnish institutions	15.9	21.9	2.4
Finnish State	11.9	24.7	0.0
Finnish private shareholders	2.1	1.9	33.2
Swedish institutions	13.8	30.7	3.0
Swedish private shareholders	3.6	2.9	56.7
ADR holders	11.6	3.9	3.6
Under nominee names (non-Finnish/non-Swedish shareholders)	41.0	14.0	1.1

% of shares held



Share Distribution, 31 December 2005

By Size of Holding, A shares	Shareholders	%	Shares	%
1–100	2 269	36.18	126 413	0.07
101–1 000	3 284	52.35	1 283 528	0.72
1 001–10 000	669	10.67	1 696 469	0.95
10 001–100 000	42	0.67	936 354	0.53
100 001–1 000 000	2	0.03	914 900	0.51
1 000 001–	6	0.10	173 202 114	97.22
Total	**6 272**	**100.00**	**178 159 778**	**100.00**

By Size of Holding, R shares	Shareholders	%	Shares	%
1–100	4 932	24.02	345 463	0.05
101–1 000	11 925	58.07	5 292 258	0.83
1 001–10 000	3 291	16.03	9 189 143	1.45
10 001–100 000	296	1.44	8 477 225	1.34
100 001–1 000 000	69	0.34	23 173 931	3.65
1 000 001–	21	0.1	588 339 301	92.68
Total	**20 543**	**100.00**	**634 817 321**	**100.00**

According to the Finnish Central Securities Depository (APK)

Conversion

According to the Articles of Association, holders of Stora Enso A shares may convert these shares into R shares at any time. Conversion of shares is voluntary.

During the year a total of 872 445 A shares were converted into R shares. The latest conversion was recorded in the Finnish Trade Register on 15 December 2005.

Authorisations for 2005

The AGM on 22 March 2005 authorised the Board of Directors to repurchase and dispose of not more than 17 900 000 A shares and not more than 62 150 000 R shares. The number of shares repurchased could not exceed 10% of the votes or the share capital. The authorisation is valid up to and including 21 March 2006. The Board of Directors currently has no authorisations to issue shares, convertible bonds or bonds with warrants.

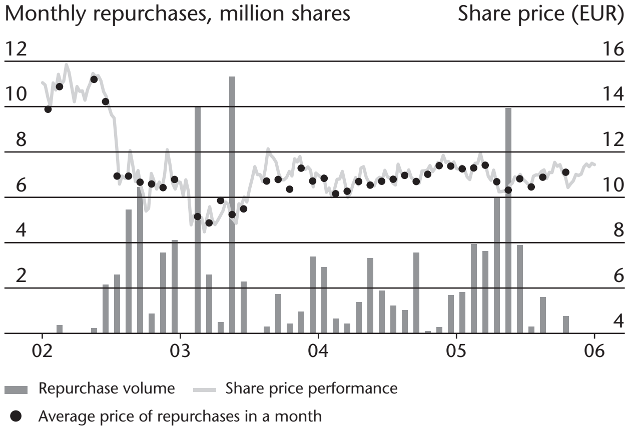
Share Cancellations and Repurchases

The AGM on 22 March 2005 decided to lower the Company's share capital by EUR 41 252 710 through the cancellation of 16 300 A shares and 24 250 000 R shares. The shares had been repurchased under the authorisation of the AGM 2004. The reduction in share capital was registered in the Finnish Trade Register on 31 March 2005.

Repurchases under the AGM 2005 authorisation were initiated on 30 March 2005. By 31 December 2005, 38 600 A shares and 23 164 400 R shares had been repurchased, representing 0.2% and 37.3% of the target amounts respectively. The average price paid for A shares was EUR 10.74 and for R shares EUR 10.59.

Shares can be repurchased for the purpose of developing the capital structure of the Company, to be used in the financing of corporate acquisitions and other transactions or for the purpose of being sold or otherwise transferred or cancelled. The cancellation of shares requires a separate resolution by a shareholders' meeting to reduce the share capital of the Company.

Share Repurchases and Share Price Performance



Investor Relations activities during 2005

Stora Enso's Investor Relations activities cover Europe, North America and parts of Asia on a regular basis.

In 2005 the Investor Relations team hosted around 350 meetings including around 300 investor one-on-one meetings, 40 investor group meetings and 10 mill visits.

One of the main IR events took place in Brazil in December. The Investor Day programme included presentations in São Paolo and a mill visit to Veracel Pulp Mill in Bahia. Nearly a hundred representatives of the investment community participated in the event at the mill. The presentations focused on Stora Enso's strategy for the new growth markets and particularly Stora Enso's initiatives in South America.

During the year IR and senior management also gave presentations in various investor seminars and conferences in Europe and USA.

Incentive Programmes

Share-Based Option Programmes

In 2005 Stora Enso extended the two share-based option programmes introduced in 2004 to cover all participants in long-term incentive plans. The programmes are synthetic share awards under which designated employees may receive shares already issued (not new shares).

Option/Synthetic Option Programmes

Stora Enso has seven option/synthetic option programmes for key personnel. Options/synthetic options were issued in each year from 1999 to 2005. Depending on local circumstances, holders may receive either cash compensation or an option to purchase shares already issued.

Stora Enso North America Option Programme

Following the acquisition of Consolidated Papers, Inc. the Board of Directors decided to convert the Consolidated Papers' share option plans into Stora Enso share option plans. The options entitle the holder to either cash compensation or an option to subscribe for shares already issued.

Option programmes are described in detail in Note 29 on Page 96.

Management Interests at 31 December 2005

At the end of 2005 members of Stora Enso Oyj's Board of Directors and the CEO owned an aggregate total of 63 509 Stora Enso shares, of which 5 590 were A shares. These shares represent 0.01% of the Company's share capital and 0.00% of the voting rights. The CEO holds 672 500 options/synthetic options.

At the end of 2005 members of the Management Group owned a total of 106 400 shares. These shares represent 0.01% of the share capital and 0.01% of the voting rights. The Management Group holds 3 786 150 options/synthetic options.

Further information on Board and Management Group ownerships is given in Notes 7 and 29 on Pages 61 and 98, respectively.

Shareholdings of Other Group-related Bodies at 31 December 2005

E.J. Ljungberg's Education Fund owned 1 880 540 A shares and 4 831 804 R shares, Mr. and Mrs. Ljungberg's Testamentary Fund owned 5 093 A shares and 13 085 R shares and Bergslaget's Healthcare Foundation owned 626 269 A shares and 1 609 483 R shares.

Shareholders

At the end of 2005 the Company had approximately 75 000 registered shareholders, of which about 45 000 are Swedish shareholders and about 2 700 ADR holders. Each nominee register is entered in the share register as one shareholder. Approximately 565 million (69%) of the Company's shares were registered in the name of a nominee.

The free float of shares excluding shareholders with holdings of more than 5% of shares or votes is approximately 630 million shares, which is 77% of the total number of shares issued. The largest single share-holder in the Company is the Finnish State. However, since June 1998 the Finnish State has not been required to own Stora Enso shares.

Major Shareholders as of 31 December 2005

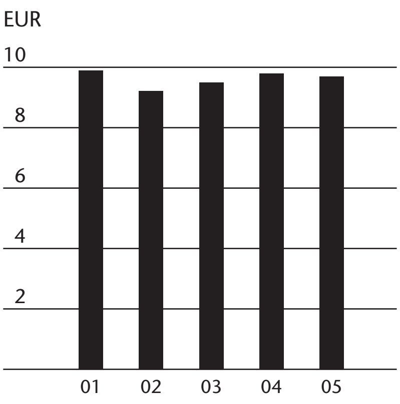
	By Voting Power	A shares	R shares	% of Shares	% of Votes
1	Finnish State	55 595 937	41 483 501	11.9	24.7
2	Knut and Alice Wallenberg Foundation	58 379 194	0	7.2	24.2
3	Social Insurance Institution of Finland	23 825 086	3 738 965	3.4	10.0
4	Varma Mutual Pension Insurance Company	11 972 117	140 874	1.5	4.96
5	Marianne and Marcus Wallenberg Foundation	4 744 192	0	0.6	2.0
6	Ilmarinen Mutual Pension Insurance Company	3 492 546	4 785 167	1.0	1.6
7	Sampo Life Insurance Company Limited	3 443 889	0	0.4	1.4
8	MP-Bolagen i Vetlanda AB (Werner von Seydlitz)	2 933 800	1 665 000	0.6	1.3
9	Erik Johan Ljungberg's Education Fund	1 880 540	4 831 804	0.8	1.0
10	Bergslaget's Healthcare Foundation	626 269	1 609 483	0.3	0.3
11	Kaleva Mutual Insurance Company	774 900	0	0.1	0.3
12	The State Pension Fund	0	5 400 000	0.7	0.2
13	Svenska Handelsbanken CEA	380 855	708 435	0.1	0.2
14	Lamar Mary (ADRs)	0	4 118 998	0.5	0.2
15	Robur Funds	0	3 890 802	0.5	0.2
	Total	**168 049 325**	**72 373 029**	**29.9**	**72.5**
	Nominee registered shares	**74 922 323**	**490 066 775**	**69.5**	**51.3**

The list has been compiled by the Company on the basis of shareholder information obtained from the Finnish Central Securities Depository (APK), Swedish Securities Register Centre (VPC) and a database managed by Deutsche Bank Trust Company Americas.

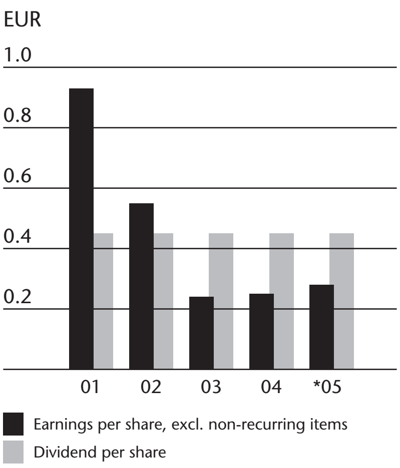
In July 2005, as a result of conversions of Stora Enso Oyj A shares into R shares by other shareholders, the percentage of Stora Enso votes held by the Social Insurance Institution of Finland increased to over 10%.

As of the end of 2005 Stora Enso had 178 159 778 A shares and 634 817 321 R shares in issue, of which the Company held 38 600 A shares and 24 373 452 R shares with a nominal value of EUR 41.5 million. The holding represents 3.0% of the Company's share capital and 1.0% of the voting rights.

Equity per Share

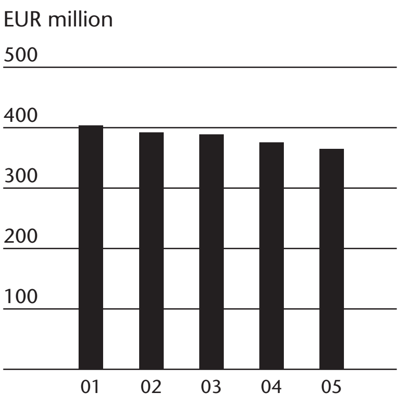


Earnings and Dividend per Share



* Board´s dividend proposal

Distributed Dividend Amount



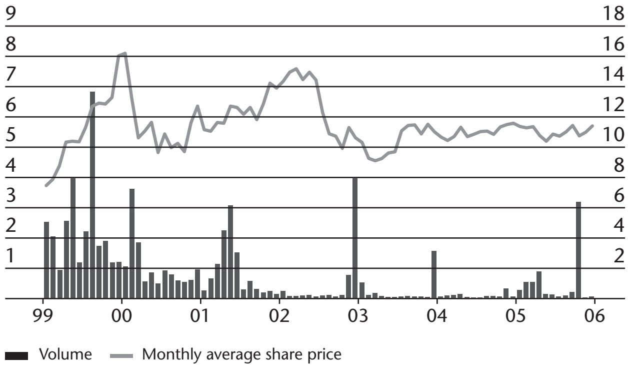
Share Price Performance and Volumes

Helsinki

The Stora Enso R (STERV) share price rose during 2005 by 2% (6% in 2004). During the same period the OMX Helsinki Index rose by 30%, the OMX Helsinki Benchmark Index rose by 31% and the OMX Helsinki Materials index rose by 8%.

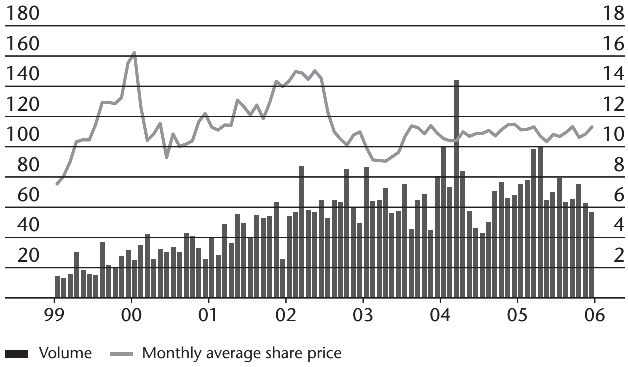
Stora Enso A

Number of shares, million — Share price (EUR)



Stora Enso R

Number of shares, million — Share price (EUR)



Stockholm

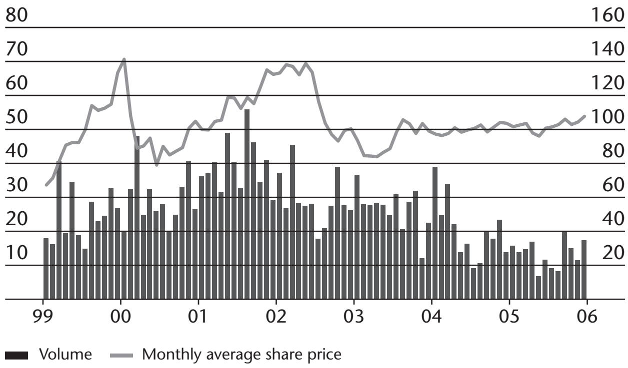
The Stora Enso R (STE R) share price rose during 2005 by 6% (5% in 2004). During the same period the OMX Stockholm 30 Index rose by 29% and the OMX Stockholm Materials Index by 22%.

New York

On the NYSE the Stora Enso ADR (SEO) share price decreased during 2005 by 11% (12% in 2004). During the same period the Standard & Poor's Paper Index decreased by 6%.

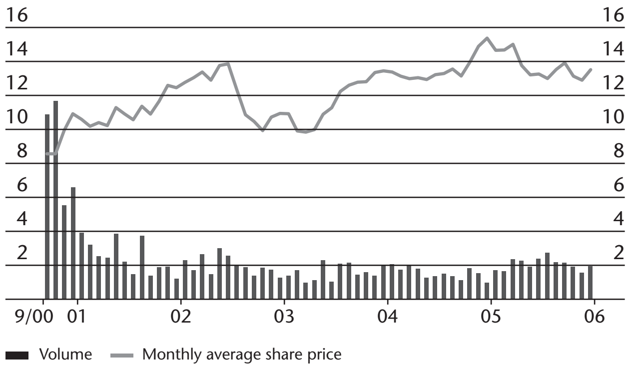
Stora Enso R

Number of shares, million — Share price (SEK)



Stora Enso ADR

Number of shares, million — Share price (USD)



Share Prices and Volumes 2005

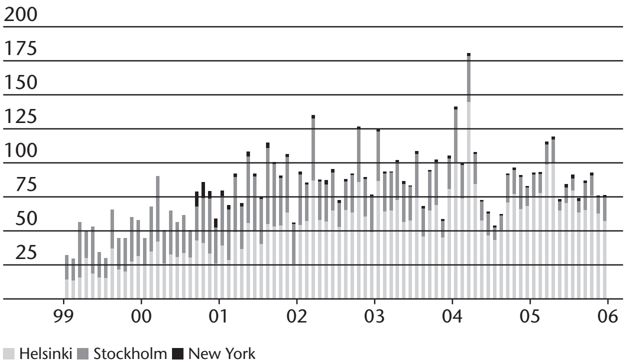
		Helsinki, EUR	Stockholm, SEK	New York, USD
	A share	12.19	110.00	-
High	R share	12.17	110.00	16.00
	A share	9.51	93.25	-
Low	R share	10.05	91.75	12.36
	A share	11.46	108.00	-
Closing, 31 Dec 2005	R share	11.44	107.50	13.52
	A share	-1%	4%	-
Change from previous year	R share	2%	5%	-11%
	A share	6 290 212	2 538 530	-
Cumulative trading volume	R share	888 511 104	160 314 672	24 935 800

The volume-weighted average price of the R share over the year was EUR 10.98 in Helsinki (EUR 11.50 in 2004), SEK 102.27 in Stockholm (SEK 99.39 in 2004) and USD 13.69 in New York (USD 13.51 in 2004).

The cumulative trading volume of the R share in Helsinki was 888 511 104 shares (83% of total), in Stockholm 160 325 619 shares (15% of total) and in New York 24 935 800 shares (2% of total). Total market capitalisation on the Helsinki Stock Exchange at the year-end was EUR 9.3 billion.

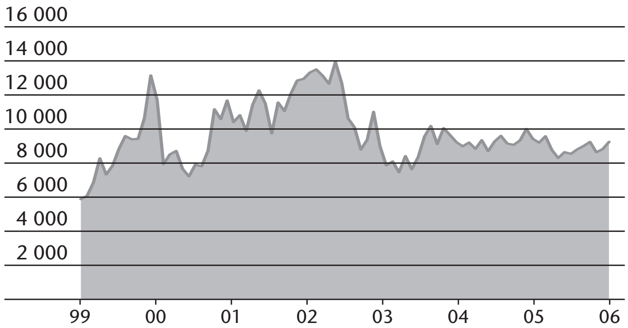
Monthly R Share Trading Volumes 1999–2005

Number of shares, million



Market Capitalisation on the Helsinki Stock Exchange

EUR million



Stora Enso is included in at least the following indices

- OMX Helsinki
- OMX Helsinki 25
- OMX Helsinki Cap
- OMX Helsinki Benchmark
- OMX Helsinki Materials
- OMX Helsinki Paper & Forest Products

- OMX Stockholm
- OMX Stockholm 30
- OMX Stockholm Benchmark
- OMX Stockholm Materials
- OMX Stockholm Paper & Forest Products

- DJ STOXX Large and 600
- DJ EURO STOXX Large
- DJ STOXX Nordic 30
- DJ STOXX TMI Value
- DJ STOXX Sustainability
- DJ EURO STOXX Sustainability

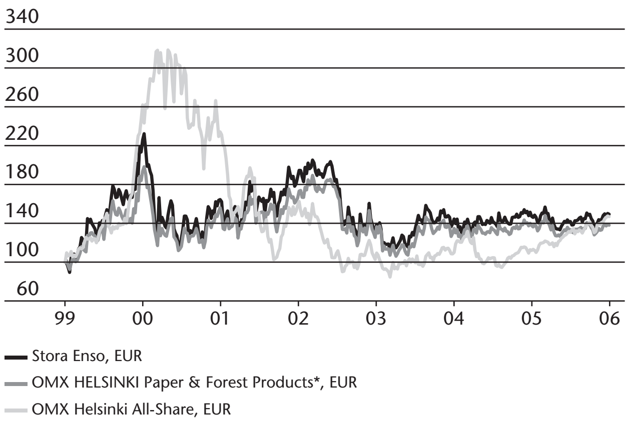
- EIG (Ethical Index Global)
- EIE (Ethical Index Europe)

- FTSE Eurofirst 100
- FTSE Norex 30
- FTSE Global Basic Industries
- FTSE4Good Global and Europe Index
- FTSE GEIS Global All-Cap

- MSCI Finland
- MSCI Europe
- MSCI World

Stora Enso R Share versus OMX Helsinki Indices

1.1.1999 = 100



* From 1 October 2005 onwards. Until 30 September 2005 *HEX Forest Industry Index*, which was discontinued.

Key Share Ratios 1997–2005 (for calculations see Page 113)

According to Helsinki Stock Exchange	1997	1998	1999	2000	2001	2002	2003	2004	2005
Earnings/share, EUR*	0.53	0.24	0.98	1.77	1.02	-0.27	0.16	0.89	-0.16
– diluted, EUR*	0.53	0.24	0.98	1.76	1.02	-0.27	0.17	0.89	-0.16
– excl. non-recurring items, EUR*	0.58	0.59	0.89	1.32	0.93	0.55	0.24	0.25	0.28
Cash earnings/share, EUR*	1.63	1.79	2.18	3.16	2.42	2.50	1.57	2.01	1.62
– diluted, EUR*	1.63	1.79	2.18	3.13	2.42	2.50	1.57	2.01	1.62
– excl. non-recurring items, EUR*	1.65	1.80	2.09	2.61	2.33	1.97	1.63	1.67	1.70
Equity/share, EUR*	7.28	6.94	7.84	9.41	9.90	9.22	9.49	9.81	9.70
Dividend/share, EUR*	0.33	0.35	0.40	0.45	0.45	0.45	0.45	0.45	**0.45
Payout ratio, excl. non-recurring items, %*	57	59	45	34	48	82	180	180	161
Dividend yield, %*									
A share	4.6	4.6	2.3	3.5	3.2	4.5	4.1	3.9	3.9
R share	4.6	4.6	2.3	3.6	3.1	4.5	4.2	4.0	3.9
Price/earnings ratio (P/E), excl. non-recurring items*									
A share	12.3	12.8	19.8	9.7	15.1	17.7	44.0	46.2	40.9
R share	12.2	13.0	19.4	9.5	15.3	17.6	42.7	45.1	40.9
Share prices for the period, EUR***									
A share									
– closing price	7.15	7.57	17.60	12.86	14.20	10.10	11.00	11.55	11.46
– average price	7.75	9.14	11.21	12.01	12.24	11.24	10.63	11.11	11.05
– high	9.86	11.77	17.60	18.70	15.50	16.00	12.48	12.15	12.19
– low	6.22	5.40	6.45	8.95	10.10	8.50	8.25	10.00	9.51
R share									
– closing price	7.10	7.67	17.31	12.60	14.38	10.05	10.68	11.27	11.44
– average price	7.97	8.35	11.84	11.27	12.57	12.86	10.23	10.89	10.98
– high	10.01	11.86	17.70	19.00	15.67	16.13	12.42	12.11	12.17
– low	6.17	5.30	6.60	8.70	10.12	8.41	8.30	9.60	10.05
Market capitalisation at year-end, EUR million***									
A share	834	1 842	3 677	2 501	2 617	1 841	1 993	2 068	2 042
R share	1 379	3 959	9 532	9 232	10 389	7 211	7 295	7 418	7 262
Total	2 214	5 801	13 209	11 733	13 006	9 052	9 288	9 486	9 304
Number of shares at the end of period, (thousands)***									
A share	116 729	243 395	208 951	194 496	184 274	182 317	181 211	179 049	178 160
R share	194 362	516 185	550 659	732 727	723 638	717 462	683 051	658 195	634 817
Total	311 091	759 580	759 610	927 223	907 912	899 779	864 262	837 244	812 977
Trading volume, (thousands)									
A share	16 321	12 749	28 349	12 917	10 737	5 875	2 937	1 203	6 290
% of total number of A shares****	9.4	-	12.1	6.7	5.8	3.2	1.6	0.7	3.5
R share	109 698	87 113	259 287	396 783	548 547	751 909	780 890	880 002	888 511
% of total number of R shares****	80.3	-	49.3	55.4	75.8	104.8	114.3	133.7	140.0
Average number of shares (thousands)									
– basic*	759 574	759 574	759 580	812 040	901 506	889 606	851 128	829 935	798 687
– diluted*	759 691	759 822	760 628	813 488	902 296	889 956	851 326	830 546	799 218

* Proforma STORA and Enso figures for years 1997–1998 ** Board of Directors' proposal to the AGM *** Figures based on market information are calculated from Enso Oyj's figures before 29 December 1998 **** 1998 figures are not available due to the merger on 29 December 1998, figures before 1998 are based on Enso Oyj's figures.

Trading codes, lots and currencies

	Helsinki	Stockholm	New York
A share	STEAV	STE A	-
R share	STERV	STE R	-
ADRs	-	-	SEO
Lot	100	200	-
Currency	EUR	SEK	USD

Reuters	STERV.HE
Bloomberg	STERV FH EQUITY

German stock market quotations (Freiverkehr)

	Symbol	CUSIP number	Place of listing
A share	ENUA	870 734	Berlin, Munich
R share	ENUR	871 004	Berlin, Frankfurt, Stuttgart, Munich

Report on Operations

Comparatives

Comparative figures in tables are given for the previous two years for both Balance Sheet and Income Statement items; comparatives in text are given in brackets for the previous year unless otherwise stated.

Markets and Deliveries

Global demand for paper and board products improved seasonally in the latter part of the year, but grew only modestly in 2005 despite robust economic growth in most regions. In advertising-driven paper grades volumes increased slightly in Europe, but decreased in North America. Excess capacity kept the markets competitive and prices low. Packaging board markets were steady and prices remained largely unchanged.

Depressed profitability has prompted some capacity closures, especially in North America. However, capacity continued to grow rapidly in Asia, especially China and net imports into the region declined.

Restructuring in the industry continued and private equity firms further consolidated their role in the paper and board industry.

Estimated Consumption of Paper and Board in 2005

Tonnes, million	Western Europe	North America	Asia (incl. Oceania)
Standard newsprint	9.1	10.4	12.7
Uncoated magazine paper (incl. SC)	5.7	6.2	2.1
Coated magazine paper (LWC, MWC)	7.0	5.9	3.0
Coated fine paper	8.1	5.6	11.3
Uncoated fine paper	9.6	13.2	21.6
Containerboards	20.5	30.8	44.1
Cartonboards	6.9	14.3	16.4

Source: RISI, Stora Enso

Deliveries of paper and board decreased by 1.8% to 14 150 000 (14 410 000) tonnes and production was lower at 14 319 000 (14 519 000) tonnes, mainly because of the Finnish labour dispute. Market-related production curtailments totalled 141 000 (364 000) tonnes or 1.2% of total capacity, including 15 000 (7 000) tonnes in North America. Deliveries of wood products were about 1.2% greater than in the previous year.

Deliveries by Segment

	Year Ended 31 December			Change	Curtailments	
1 000 tonnes	**2003**	**2004**	**2005**	**%**	**2004**	**2005**
Publication Paper	6 788	7 315	7 008	-4	240	66
Fine Paper	3 413	3 596	3 521	-2	28	19
Packaging Boards	3 350	3 499	3 621	3	96	56
Total Paper and Board Deliveries	**13 551**	**14 410**	**14 150**	**-2**	**364**	**141**
Wood Products, 1 000 m^3	5 822	6 664	6 741	1		
Corrugated Boards, million m^2	500	570	855	50		

Financial Results

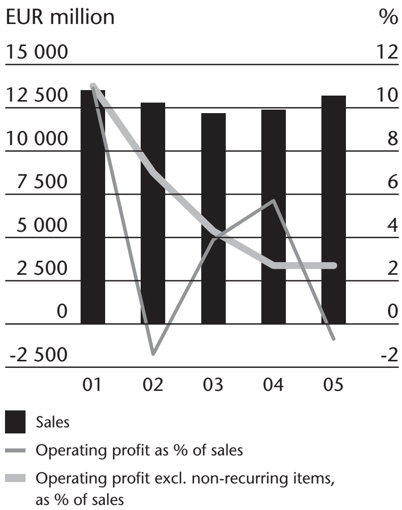
Sales increased by EUR 791.7 million to EUR 13 187.5 million, an increase of 6.4%. Acquisition of the German paper merchant Schneidersöhne Group accounted for EUR 354.6 million of the increase; the remainder was due mainly to increased prices, partially offset by lower deliveries (see Sales by Destination and Origin, Page 54).

Operating profit, excluding non-recurring items, decreased by EUR 69.2 million to EUR 357.5 million. Operating profit was lower in all segments except Publication Paper and Fine Paper. The main reasons for the decrease in profits were lower sales volumes and higher variable costs, especially for transportation, wood and energy. However, higher product prices and decreased fixed costs had positive impacts on operating profit. The fair valuation of net assets related to the acquisition of Schneidersöhne Group led to a EUR 7.2 million lower contribution from fair valued inventory. The strengthening of the US dollar increased operating profit by EUR 33.6 million.

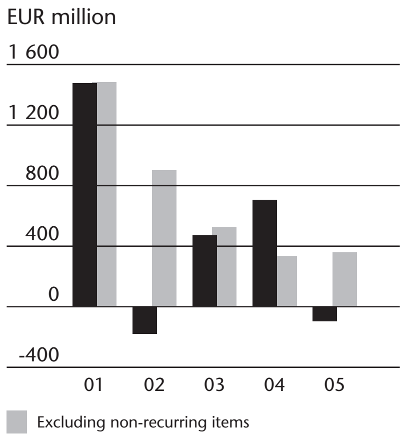
Income Statement in Brief

EUR million	Year Ended 31 December 2003	2004	2005	Change %	Per Share, EUR 2003	2004	2005
Sales	**12 172.3**	**12 395.8**	**13 187.5**	**6.4**	**14.30**	**14.96**	**16.51**
EBITDA excl. non-recurring items	1 710.6	1 508.4	1 487.4	-1.4	2.01	1.82	1.86
Operating profit excl. non-recurring items	641.8	426.7	357.5	-16.2	0.76	0.52	0.45
Goodwill amortisation	-116.0	-90.3	-	-	-0.14	-0.11	-
Non-recurring items	-54.4	369.7	-451.4	-	-0.06	0.44	-0.57
Operating Profit	**471.4**	**706.1**	**-93.9**	-	**0.56**	**0.85**	**-0.12**
Share of result in associated companies	-23.0	38.9	67.2	-	-0.03	0.05	0.08
Net financial items	-237.7	-106.0	-151.6	-	-0.28	-0.13	-0.19
Profit before Tax	**210.7**	**639.0**	**-178.3**	-	**0.25**	**0.77**	**-0.23**
Income tax	-67.0	108.8	52.0	-	-0.08	0.13	0.07
Net Profit for the Period	**143.7**	**747.8**	**-126.3**	-	**0.17**	**0.90**	**-0.16**
Minority Interests	-5.8	-8.1	-3.7	-	-0.01	-0.01	0.00
Net Profit Attributable to Company Shareholders	**137.9**	**739.7**	**-130.0**	-	**0.16**	**0.89**	**-0.16**
Net Profit for the Period excl. Non-recurring Items	**204.2**	**211.1**	**226.6**	-	**0.24**	**0.25**	**0.28**

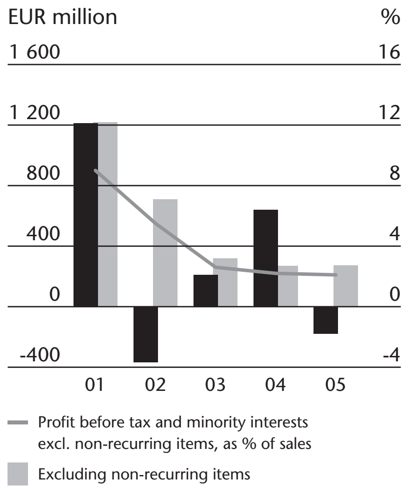
Sales and Operating Profit



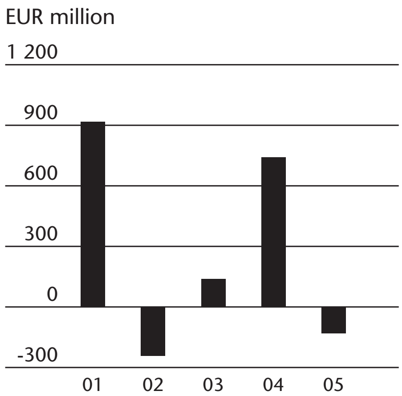
Operating Profit



Profit before Tax and Minority Interests

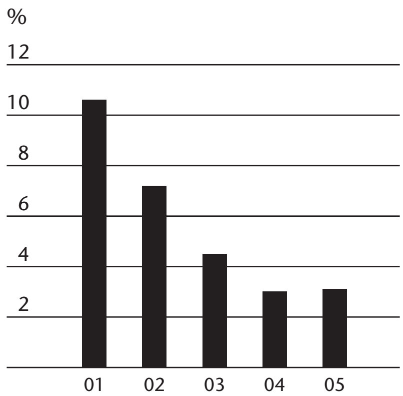


Profit for the Period *)



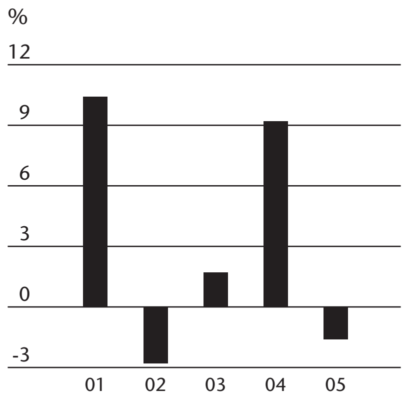
*) attributable to Company shareholders

Return on Capital Employed (ROCE)



Excluding non-recurring items

Return on Equity (ROE)



During the second and third quarters of 2005 there was a labour dispute in Finland. The labour dispute reduced operating profit by approximately EUR 150 million in the second quarter and by approximately EUR 40 million in the third quarter compared with full production. Two important achievements resulted from the dispute: the ability to continue production uninterrupted over Christmas and Midsummer, and new rules on outsourcing. The full benefits of these new opportunities will materialise over time.

In North America the Profit Enhancement Programme launched in 2002 was largely concluded. The targeted EBITDA improvement of USD 145 million was achieved. EBITDA for the full year 2005 for the North American operations was USD 275.8 million or EUR 221.6 million (USD 136.2 million or EUR 109.5 million in 2004). Operating profit in the second half offset the loss in the first half of the year. Cash flow after investing activities was USD 192.9 million or EUR 155.0 million (USD -69.4 million or EUR -55.8 million in 2004). Stora Enso merged its North American division into its global product divisions on 1 September 2005.

The Company launched a profitability improvement programme, Profit 2007, and an Asset Performance Review (APR) during 2005 to improve the competitiveness of its European production base. Profit 2007 has targeted an improvement in annual pre-tax profit of EUR 300 million from mid 2007 onwards. There were several non-recurring items in 2005 related to these two programmes. The non-recurring items totalled EUR -451.4 million, comprising EUR -297.8 million of write-downs, EUR -18.7 million of restructuring charges with immediate cash impact and EUR -134.9 million of provisions, mainly related to redundancies, which will have a cash impact mostly during 2006.

Sales, Operating Profit and Return on Operating Capital by Segment

	Sales			Operating Profit			ROOC, % *		
EUR million	2003	2004	2005	2003	2004	2005	2003	2004	2005
Publication Paper	4 505.5	4 621.4	4 675.9	129.0	104.6	193.3	3.1	2.4	4.4
Fine Paper	2 760.6	2 668.8	2 690.3	138.9	54.5	62.2	4.7	1.9	2.2
Merchants	627.6	637.9	1 173.2	-6.7	11.2	3.3	-4.4	6.8	0.8
Packaging Boards	2 982.9	3 053.4	3 190.2	284.2	271.3	220.0	9.8	9.0	7.3
Wood Products	1 400.0	1 566.8	1 588.3	26.5	34.7	-3.1	5.1	5.2	-0.5
Wood Supply	2 074.3	2 481.6	2 501.9	116.5	32.3	-11.8	5.3	5.5	-4.2
Other	-2 178.6	-2 634.1	-2 632.3	-46.6	-81.9	-106.4	-	-	-
Goodwill amortisation	-	-	-	-116.0	-90.3	-	-	-	-
Total excl. Non-Recurring Items	**12 172.3**	**12 395.8**	**13 187.5**	**525.8**	**336.4**	**357.5**	**4.5**	**3.0**	**3.1**
Non-recurring items	-	-	-	-54.4	369.7	-451.4	-	-	-
Total	**12 172.3**	**12 395.8**	**13 187.5**	**471.4**	**706.1**	**-93.9**	**4.0**	**6.3**	**-0.8**

*) ROOC = Return On Operating Capital, Group figures represent Return On Capital Employed ("ROCE")

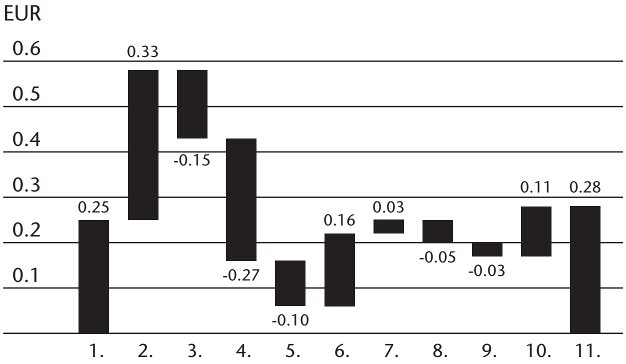
Non-Recurring Items by Quarter

EUR million	Q1/05	Q2/05	Q3/05	Q4/05	2005
Operative items					
Reorganisation & restructuring provision	-	-	-	-134.9	-134.9
Reorganisation & restructuring cash impact 2005	-	-	-	-18.7	-18.7
Impairment of fixed assets & goodwill	-	-12.0	-	-285.8	-297.8
Total Non-Recurring Items	-	**-12.0**	-	**-439.4**	**-451.4**
Tax on above amounts	-	3.1	-	91.7	94.8
Total after Tax	-	**-8.9**	-	**-347.7**	**-356.6**
EPS Effect, EUR	-	**-0.01**	-	**-0.44**	**-0.45**

Non-Recurring Items by Segment

EUR million	2003	2004	Q1/05	Q2/05	Q3/05	Q4/05	2005
Publication Paper	-29.5	76.4	-	-	-	-201.6	-201.6
Fine Paper	-7.2	66.9	-	-	-	-40.8	-40.8
Merchants	-	0.8	-	-	-	-7.9	-7.9
Packaging Boards	-3.1	78.6	-	-	-	-144.4	-144.4
Wood Products	-	16.4	-	-12.0	-	-41.2	-53.2
Wood Supply	-	126.3	-	-	-	-3.5	-3.5
Other	-14.6	4.3	-	-	-	-	-
Total	**-54.4**	**369.7**	-	**-12.0**	-	**-439.4**	**-451.4**

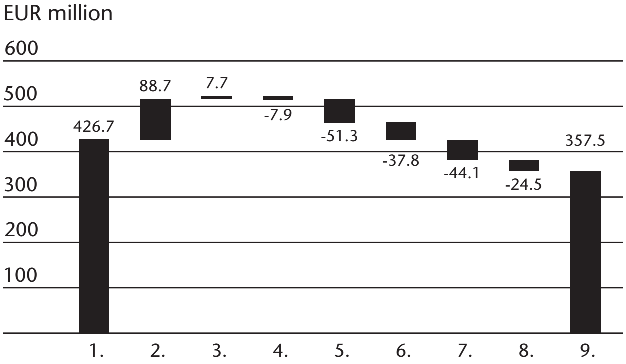
Change in EPS from 2004 to 2005



1. EPS 2004 2. Sales prices and mix 3. Sales volume 4. Variable costs 5. Energy 6. Fixed costs 7. Associated companies 8. Financing 9. Other 10. Goodwill amortisation 11. EPS 2005

Excluding non-recurring items

Change in Operating Profit



1. Operating Profit 2004 2. Publication Paper 3. Fine Paper 4. Merchants 5. Packaging Boards 6. Wood Products 7. Wood Supply 8. Other 9. Operating Profit 2005

Excluding non-recurring items and amortisation

Publication Paper

Operating profit excluding non-recurring items and goodwill amortisation was EUR 193.3 (EUR 104.6) million, an increase of EUR 88.7 million or 85% on 2004. The increase was mainly due to higher sales prices, partially offset by lower sales volume and higher energy costs and depreciation. Fixed costs were reduced. Production curtailments totalled 66 000 (240 000) tonnes.

EUR million	2003	2004	2005
Sales	4 505.5	4 621.4	4 675.9
Operating profit*	129.0	104.6	193.3
% of sales	2.9	2.3	4.1
Operating capital	4 173.8	4 335.9	4 451.0
ROOC, %**	3.1	2.4	4.4
Average number of employees	13 454	12 884	12 450
Deliveries, 1 000 t	6 788	7 315	7 008
Production, 1 000 t	6 847	7 317	7 087
Market-related production curtailments, 1 000 t	497	240	66

*) Excluding non-recurring items and goodwill amortisation.

**) ROOC = 100% x Operating profit/Operating capital

Fine Paper

Operating profit excluding non-recurring items and goodwill amortisation was to EUR 62.2 (EUR 54.5) million, an increase of EUR 7.7 million or 14% on 2004. Higher sales prices were partly offset by lower volumes. The oil related costs and depreciation increased but the fixed costs were reduced. Production curtailments were reduced to 19 000 (28 000) tonnes, but production was also lost due to the Finnish labour dispute.

EUR million	2003	2004	2005
Sales	2 760.6	2 668.8	2 690.3
Operating profit*	138.9	54.5	62.2
% of sales	5.0	2.0	2.3
Operating capital	2 781.6	2 795.2	2 752.1
ROOC, %**	4.7	1.9	2.2
Average number of employees	8 274	7 758	7 637
Deliveries, 1 000 t	3 413	3 596	3 521
Production, 1 000 t	3 438	3 727	3 554
Market-related production curtailments, 1 000 t	142	28	19

*) Excluding non-recurring items and goodwill amortisation.

**) ROOC = 100% x Operating profit/Operating capital

Merchants

Operating profit excluding non-recurring items and goodwill amortisation was EUR 3.3 (EUR 11.2) million, a decrease with EUR 7.9 million on 2004. The fair valuation of net assets related to the acquisition of Schneidersöhne Group led to a EUR 7.2 million lower contribution from fair valued inventory.

Packaging Boards

Operating profit excluding non-recurring items and goodwill amortisation was EUR 220.0 (EUR 271.3) million, down EUR 51.3 million or 19% on 2004, as higher oil and energy costs were only partly offsey by lower fixed costs. Production curtailments totalled 56 000 (96 000) tonnes, but production was also lost due to the Finnish labour dispute.

EUR million	2003	2004	2005
Sales	2 982.9	3 053.4	3 190.2
Operating profit*	284.2	271.3	220.0
% of sales	9.5	8.9	6.9
Operating capital	2 853.1	3 096.6	2 968.0
ROOC, %**	9.8	9.0	7.3
Average number of employees	10 916	10 860	12 454
Deliveries, 1 000 t	3 350	3 499	3 621
Production, 1 000 t	3 400	3 475	3 678
Market-related production curtailments, 1 000 t	143	96	56

*) Excluding non-recurring items and goodwill amortisation.

**) ROOC= 100% x Operating profit/Operating capital

Wood Products

Operating profit excluding non-recurring items and goodwill amortisation was EUR -3.1 (EUR 34.7) million, down EUR 37.8 million mainly due to poor business conditions and increased raw material costs.

EUR million	2003	2004	2005
Sales	1 400.0	1 566.8	1 588.3
Operating profit*	26.5	34.7	-3.1
% of sales	1.9	2.2	-0.2
Operating capital	638.7	687.5	668.5
ROOC, %**	5.1	5.2	-0.5
Average number of employees	4 625	4 856	5 081
Deliveries, 1 000 m^3	5 822	6 664	6 741

*) Excluding non-recurring items and goodwill amortisation.

**) ROOC = 100% x Operating profit/Operating capital

Wood Supply

Operating profit excluding non-recurring items and goodwill amortisation was EUR -11.8 million, a deteoriation of EUR 44.1 million compared with the operating profit of EUR 32.3 million in 2004.

Other

Other operating loss excluding non-recurring items and goodwill amortisation amounted to EUR 106.4 (EUR 81.9) million. This includes unallocated corporate overhead costs and the elimination of internal margins on consolidation.

The share of results in associated companies amounted to EUR 67.2 (EUR 38.9) million, including EUR 56.5 million from Bergvik Skog and EUR 21.4 million from Tornator.

The direct contribution from the Veracel Pulp Mill joint venture is reflected in two places in Stora Enso's Income Statement, divided between Fine Paper segment operating profit and share of results in associated companies.

Net financial items were EUR -151.6 (EUR -106.0) million. Net interest costs for the year totalled EUR -165.0 million, which is 3.7% of interest-bearing net liabilities and EUR 23.7 million more than for the previous year, mainly due to increased average indebtedness. Foreign exchange gains in financial items were EUR 14.4 (EUR -1.1) million. Other financial items totalled EUR -1.0 (EUR 36.4) million, mostly due to unrealised changes in fair values of financial instruments.

Net Financial Items

EUR million	2003	2004	2005
Net interest	-186.1	-141.3	-165.0
Foreign exchange profit/loss	12.5	-1.1	14.4
Valuation of financial instruments	-0.2	32.1	-8.1
Other financial items	-63.9	4.3	7.1
Total	**-237.7**	**-106.0**	**-151.6**

Profit before taxes and minority interests, excluding non-recurring items, amounted to EUR 273.1 (EUR 359.6) million.

Net taxes totalled a positive EUR 52.0 (EUR 108.8) million representing a tax rate of 29.1% on the negative result before taxes. A tax benefit of EUR 94.8 million was recorded due to the non-recurring items of EUR -451.4 million. The net loss for the year amounted to EUR 126.3 million (profit of EUR 747.8 million) and the profit attributable to minority shareholders was EUR 3.7 (EUR 8.1) million, leaving a loss of EUR 130.0 (profit of EUR 739.7) million attributable to Company shareholders.

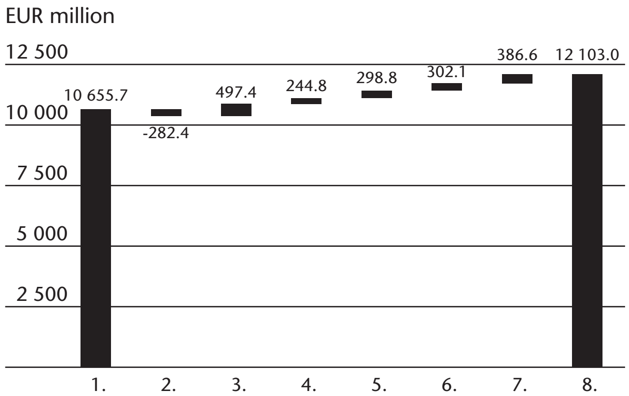
Earnings per share excluding non-recurring items increased by EUR 0.03 to EUR 0.28 and earnings per share including non-recurring items were EUR -0.16 (EUR 0.89).

The return on capital employed was 3.1% (3.0%) excluding non-recurring items. Capital employed was EUR 12 103.0 million at the end of the period, a net increase of EUR 1 447.3 million partly due to the acquisition of Schneidersöhne Group and increased inventories. The currency effect increased the capital employed by EUR 386.6 million.

Key Figures

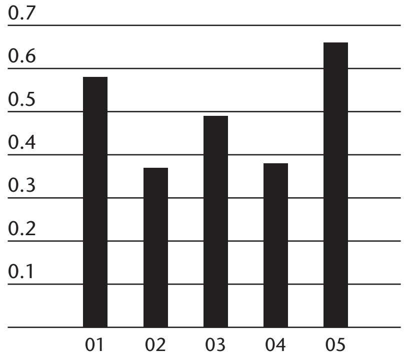
	2003	2004	2005
EPS (basic), EUR	0.16	0.89	-0.16
EPS excl. non-recurring items, EUR	0.24	0.25	0.28
Cash earnings per share (CEPS), EUR	1.57	2.02	1.62
CEPS excl. non-recurring items, EUR	1.63	1.67	1.70
ROCE, %	4.0	6.3	-0.8
ROCE excl. non-recurring items, %	4.5	3.0	3.1
Return on equity (ROE), %	1.7	9.2	-1.6
Debt/equity ratio	0.49	0.38	0.66
Equity per share, EUR	9.47	9.80	9.70
Equity ratio, %	44.6	49.8	42.8

Change in Capital Employed



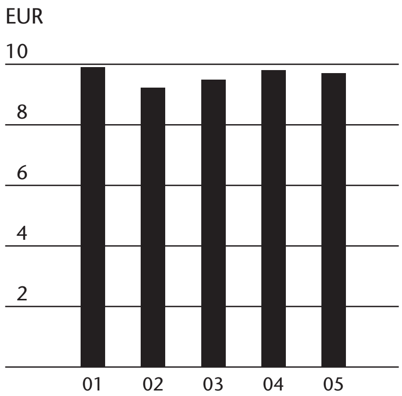
1. Capital Employed 1 Jan 2005 2. Investing activities, net of depreciation 3. Acquisitions and disposals 4. Change in working capital 5. Change in net tax liabilities 6. Other 7. Translation differences 8. Capital Employed 31 Dec 2005

Debt/Equity Ratio

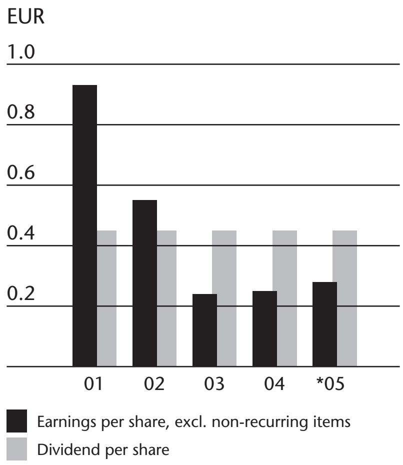


Target ≤ 0.8

Equity per Share

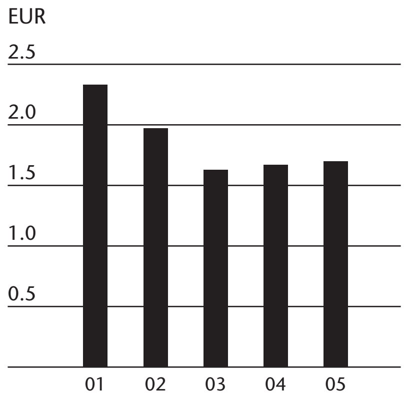


Earnings and Dividend per Share



* Board´s dividend proposal

Cash Earnings per Share



Excluding non-recurring items

Financing and Change in Interest-bearing Net Debt

Cash flow from operations was EUR 1 057.0 (EUR 1 200.1) million and cash flow after investing activities EUR -88.3 (EUR 220.5) million. Cash earnings per share were EUR 1.70 (EUR 1.67) excluding non-recurring items.

Cash Flow by Segment

EUR million	Publication Paper	Fine Paper	Packaging Boards	Wood Products	Other	Total
Operating profit, excl. non-recurring items	193.3	62.2	220.0	-3.1	-114.9	357.5
Depreciation, non-recurring items and adjustments	364.3	230.0	262.7	60.6	70.4	988.0
Change in working capital	48.2	-11.9	0.4	-11.5	-313.7	-288.5
Cash Flow from Operations	**605.8**	**280.3**	**483.1**	**46.0**	**-358.2**	**1 057.0**
Capital expenditure	-602.9	-115.9	-237.6	-44.5	-144.4	-1 145.3
Cash Flow After Investing Activities	**2.9**	**164.4**	**245.5**	**1.5**	**-502.6**	**-88.3**

At the end of the year, interest-bearing net liabilities were EUR 5 084.0 million, up EUR 2 032.6 million mainly due to weak cash flow, acquisitions and share buy-backs. The currency effect increased the interest-bearing net debt by EUR 353.2 million. Unutilised credit facilities and cash and cash-equivalent reserves totalled EUR 2.1 billion.

Capital Structure

EUR million	2003	2004	2005
Fixed assets	12 676.1	10 848.2	11 616.8
Working capital	851.4	1 301.3	1 761.1
Operating Capital	**13 527.5**	**12 149.5**	**13 377.9**
Net tax liabilities	-1 929.2	-1 493.8	-1 274.9
Capital Employed	**11 598.3**	**10 655.7**	**12 103.0**
Associated companies	319.0	568.1	719.9
Total	**11 917.3**	**11 223.8**	**12 822.9**
Shareholders' equity	7 938.0	8 036.3	7 645.3
Minority interests	60.3	136.1	93.6
Interest-bearing net liabilities	3 919.0	3 051.4	5 084.0
Financing Total	**11 917.3**	**11 223.8**	**12 822.9**

Capital Employed

EUR million	Operating Capital		Net Tax Liabilities		Capital Employed	
Finland	4 033.7	30.2%	302.6	23.7%	3 731.1	30.8%
USA	2 541.3	19.0%	222.1	17.4%	2 319.2	19.2%
Sweden	2 635.9	19.7%	481.1	37.7%	2 154.8	17.8%
Germany	1 274.5	9.5%	278.7	21.9%	995.8	8.2%
Belgium	521.3	3.9%	-5.4	-0.4%	526.7	4.4%
Canada	330.4	2.5%	-36.7	-2.9%	367.1	3.0%
Baltic States	293.6	2.2%	2.1	0.2%	291.5	2.4%
France	237.8	1.8%	2.2	0.2%	235.6	1.9%
Portugal	203.1	1.5%	2.1	0.2%	201.0	1.7%
China (incl. Hong Kong)	201.1	1.5%	0.1	0.0%	201.0	1.7%
Other	1 105.2	8.3%	26.0	2.0%	1 079.2	8.9%
Total	**13 377.9**	**100.0%**	**1 274.9**	**100.0%**	**12 103.0**	**100.0%**

Shareholders' equity amounted to EUR 7.6 billion or EUR 9.70 (EUR 9.80) per share, compared with the market capitalisation on the Helsinki Stock Exchange on 31 December 2005 of EUR 9.3 billion.

The debt/equity ratio at 31 December 2005 was 0.66 (0.38). The currency effect on equity was EUR 91.6 million net of the hedging of equity translation risks. Share buy-backs decreased equity by EUR 344.7 (EUR 198.6) million during the year.

Capital Expenditure

Capital expenditure totalled EUR 1 145.3 million, which was in line with depreciation for the year.

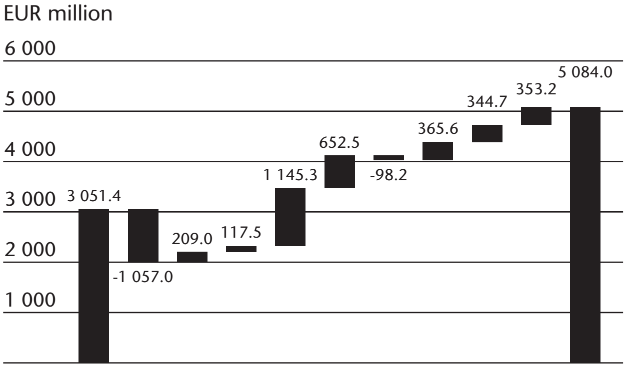
The main ongoing projects during the year were the new paper machine 12 at Kvarnsveden Mill (EUR 351.3 million), the Skoghall Energy 2005 project (EUR 88.1 million) and rebuilding paper machine 5 at Corbehem Mill (EUR 38.7 million).

In November, Stora Enso signed an agreement with Gaofeng Forest - Pulp & Paper Company to purchase 34 000 ha of timber and land use rights in Guangxi, China. The Group also bought 37 000 ha of land for plantations in Southern Brazil and 20 000 ha in Uruguay during the year. A total of EUR 57.7 million was invested in purchasing land use rights and land during the year.

Major Capital Expenditure Projects in 2005

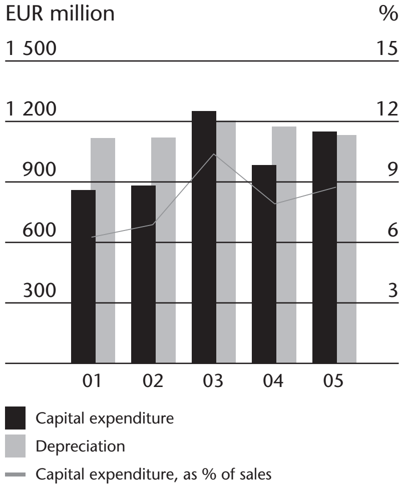
EUR million	Country	Project	Pre-2005 Costs	2005 Costs
Publication Paper				
Biron	USA	Rebuild PM26	20.1	14.0
Corbehem	France	Upgrade PM5	31.7	38.7
Hylte	Sweden	Boiler rebuild	-	13.9
Kvarnsveden	Sweden	New boiler	48.0	5.3
Kvarnsveden	Sweden	PM12 construction	89.3	351.3
Summa	Finland	Upgrade PM2	24.0	28.3
Varkaus	Finland	Thermo-mechanical pulp line	32.4	2.3
Whiting	USA	Rebuild PM 64	2.9	11.3
Fine Paper				
Suzhou	China	Rebuild PM1	1.9	20.2
Veitsiluoto	Finland	Rebuild PM3	118.4	2.4
Wisconsin Rapids	USA	Rebuild PM16 Phase 2	24.2	13.7
Packaging Boards				
Intercell	Poland	Corrugated packaging & industrial papers	-	20.4
Skoghall	Sweden	Energy 2005 Project	76.1	88.1

Change in Interest Bearing Net Debt



1. Interest-bearing net debt 31 Dec 2004 2. Cash Flow 3. Taxes Paid 4. Net Interest Paid 5. Capital Expenditure 6. Acquisitions 7. Sale of Assets 8. Dividend 9. Share buy-backs 10. Currency effect 11. Interest-bearing net debt 31 Dec 2005

Capital Expenditure and Depreciation



Excluding non-recurring items

Risk Factors

Stora Enso's enterprise risk management covers strategy, corporate governance and operational and financial risks. See pages 30–34 of this report for descriptions of potential risks and risk management issues.

Changes in Group Composition

In March Stora Enso Timber acquired the remaining 34% shareholding in the Estonian Stora Enso Timber AS, formerly AS Sylvester, and thus gained 100% ownership of the company. The debt-free purchase price was EUR 42 million.

Also in March Stora Enso acquired UPM's 29% minority shareholding in Corenso United Oy Ltd and thus gained 100% ownership of the company.

In April the previously announced acquisition of the French paper merchant Papeteries de France ("PdF") was closed. The debt-free purchase price was EUR 17 million.

In September Stora Enso finalised its previously announced acquisition of the German paper merchant Schneidersöhne Group. The debt-free purchase price was EUR 442 million.

Research and Development

In 2005 Stora Enso spent EUR 88.0 (EUR 82.2) million on research and development, equivalent to 0.7% of sales. The R&D figure may seem low relative to sales, but most development expenditure in the paper industry is related to the development of paper machines, and so it is included in the costs of the machines paid to the suppliers develop and deliver the machines.

Environmental Issues

Stora Enso's environmental liabilities at 31 December totalled EUR 44.1 (EUR 45.4) million, mainly due to the removal of mercury and other contaminants from sites in Sweden and Finland. A verified report on environmental matters is published in the separate Sustainability volume of the Annual Report.

Personnel

The average number of employees increased by 2 387 persons during the year to 46 166. The largest decrease was in Finland and the largest increase in Germany due to the acquisition of Schneidersöhne Group. On 31 December 2005 there were 46 664 employees, 1 357 more than at the end of 2004. A detailed disclosure of the personnel issues is published in the Company and Sustainability volumes of the Annual Report.

Inspections by Competition Authorities

There have been no new material developments concerning the inspections. In May 2004 Stora Enso was the subject of inspections carried out by the European Commission and the Finnish Competition Authority at locations in Europe and received subpoenas issued by the US Department of Justice as part of preliminary anti-trust investigations into the paper industry in Europe and the USA. The investigations by the authorities in both Europe and the USA are at a fact-finding stage only and no formal allegations have been made against the Group or any of its employees. Coincident with these investigations, Stora Enso has been named in a number of class action lawsuits filed in the USA. No provision has been made.

Changes in the Board of Directors

The AGM 2005 approved a proposal that the Board of Directors should have ten members. Gunnar Brock, Birgitta Kantola and Matti Vuoria were elected new members. Krister Ahlström, Björn Hägglund, Barbara Kux and Paavo Pitkänen did not seek re-election.

Changes in Organisational Structure

In March Stora Enso announced a change to its organisational structure. The new organisation focuses on broadening the experience of a number of key managers, reducing the number of management levels within Stora Enso, expanding in emerging markets and developing global product divisions. The new organisation structure took effect from 1 May 2005.

Stora Enso merged its North American division into its global product divisions in order to streamline its organisational structure with effect from 1 September 2005.

Björn Hägglund, Deputy CEO, retired on 1 June 2005.

Stora Enso modified its Corporate Governance on 1 June 2005. The specific role of Deputy CEO was discontinued; the Chief Financial Officer (CFO) acts as deputy to the CEO.

Hannu Ryöppönen was appointed CFO and Senior Executive Vice President, Finance, Accounting, Legal Affairs and Investor Relations and member of the EMG as of 1 September 2005. He succeeded Esko Mäkeläinen, who retired at the end of the year.

Kai Korhonen, previously head of the Paper product area, was appointed Senior Executive Vice President, Stora Enso Packaging Boards as of 1 May 2005. He continued to be a member of the EMG.

Pekka Laaksonen, previously head of the Packaging Boards product area, was appointed Senior Executive Vice President, Stora Enso Fine Paper as of 1 May 2005. He continued to be a member of the EMG.

Arno Pelkonen, previously head of Forest Products, was appointed Senior Executive Vice President, Strategy and Emerging Markets as of 1 May 2005. He continued to be a member of the EMG until he announced his resignation from Stora Enso on 12 January 2006.

Jussi Huttunen, previously head of Fine Paper, was appointed Senior Executive Vice President, Market Services as of 1 May 2005. He continued to be a member of the EMG.

Elisabet Salander Björklund, previously head of Wood Supply, was appointed Senior Executive Vice President, Stora Enso Forest Products and member of the EMG as of 1 May 2005.

Christer Ågren, previously head of Corporate Human Resources and TQM, was appointed Senior Executive Vice President, IT, HR and Business Excellence and member of the EMG as of 1 May 2005.

Lars Bengtsson, Senior Executive Vice President of Stora Enso's North American operations and member of the Stora Enso Executive Management Group, retired on 31 December 2005.

Share Capital

During the year 2005 a total of 42 600 A shares and 31 857 600 R shares, with a combined nominal value of EUR 54.2 million, were repurchased by the Company, representing 3.9% of the shares and 1.3% of the voting rights. The average price paid for A shares was EUR 10.83 and for R shares EUR 10.82 (for details, see Table Qurterly Share Repurchases, Page 79).

The Annual General Meeting (AGM) of Stora Enso Oyj on 22 March 2005 decided to lower the Company's share capital by EUR 41.2 million through the cancellation of 16 300 A shares and 24 250 000 R shares. These shares had been repurchased at a cost of EUR 265.7 million, under the authorisation of the 2004 AGM, and the reduction in share capital was registered in the Finnish Trade Register on 31 March 2005.

The 2005 AGM also authorised the Board to repurchase and dispose of not more than 17 900 000 A shares and 62 150 000 R shares in the Company. The repurchases started on 30 March 2005 and by 31 December 2005 the Company had repurchased a total of 38 600 A shares at an average price of EUR 10.74 and 23 164 400 R shares at an average price of EUR 10.59 under the new authorisation.

By 31 December 2005 the Company had allocated 29 079 of the repurchased R shares under the terms of the Stora Enso North America Option Plan.

During the year a total of 872 445 A shares were converted into R shares. The latest conversion was recorded in the Finnish Trade Register on 15 December 2005.

At the year end Stora Enso had 178 159 778 A shares and 634 817 321 R shares in issue, of which the Company held 38 600 A shares and 24 373 452 R shares with a nominal value of EUR 41.5 million. The holding represents 3.0% of the Company's share capital and 1.0% of the voting rights.

Events after the Period

On 5 January Stora Enso announced that after the detailed due diligence process it had decided to withdraw from the project in consumer board production in China announced in August 2005.

Outlook

In Europe a slight pick-up in advertising and direct marketing is expected to stimulate demand for advertising-driven papers. Demand for newsprint and magazine paper is good and forecast to grow moderately in 2006, with demand for SC paper in particular recovering following a weak 2005. Prices are expected to rise as a result of the year-end contract negotiations. The fine paper market is heading into a seasonally good first quarter and the demand outlook is favourable, which should support some price increases. In packaging board order books are good in most grades and demand is expected to remain firm with some price improvements. Demand for wood products is steady, but continuing oversupply in Europe is keeping the market challenging.

In North America print advertising is forecast to remain healthy. However, increases in postal rates may have some negative impact on the growth in magazine and catalogue markets, and only modest demand growth is anticipated in magazine and coated fine paper. A further decline in newsprint demand is predicted. Prices are expected to remain firm in magazine and coated fine paper, and to improve in newsprint.

In Asia demand for coated fine paper is slowing following the normal seasonal pattern.

At Port Hawkesbury Mill in Canada labour negotiations have been ongoing for over 20 months. The machines have been at a standstill since 24 December 2005. As the negotiating parties could not reach an agreement, a lockout was declared on 26 January 2006.

Annual General Meeting

The Annual General Meeting will be held at 16.00 (Finnish time) on Tuesday 21 March 2006 at the Marina Congress Center, Katajanokanlaituri 6, Helsinki, Finland.

The Board of Directors will propose to the Annual General Meeting cancellation of the shares held by the Company and seek a new authorisation to repurchase shares.

Shareholders representing more than 50% of the votes in the Stora Enso Oyj have confirmed that they will propose to the AGM that Authorised Public Accountants PricewaterhouseCoopers Oy be elected to act as auditor of the Company until the end of the following AGM.

The Board of Directors will propose to the Annual General Meeting that a dividend of EUR 0.45 per share be paid for the financial year ending 31 December 2005. If the proposal is approved, the dividend payment will be issued on 5 April 2006 to shareholders entered on the dividend record date of 24 March 2006 in the register of shareholders maintained by the Finnish Central Securities Depository, Swedish VPC and Deutsche Bank Trust Company Americas.

The Nomination Committee will propose to the Annual General Meeting that Ms Dominique Hériard Dubreuil be elected as a new member of the Board of Directors. Mr Harald Einsmann is not seeking re-election.

Risks and Risk Management

Sensitivity Analysis
Prices for paper and board products have historically been cyclical, reflecting overall economic conditions and changes in capacity within the industry; along with volatility in raw material prices, mainly for wood, pulp and energy, and exposure to exchange rates, this affects the profitability of the paper, packaging boards and forest products industries.

Group profit is affected by changes in price and volume, though the effect on operating profit depends on the segment. The table below shows the operating profit sensitivity to a +/- 10% change in either price or volume for different segments based on figures for 2005.

Operating Profit: Impact of Changes +/- 10%

EUR million	Price	Volume
Publication Paper	470	180
Fine Paper	270	100
Packaging Boards	320	140
Wood Products	160	40

Changes in exchange rates also have an impact on operating profit. The table below shows the effect on annual operating profit of a +/- 10% change in the value of the euro against the US dollar, Swedish krona and British pound. The calculation is made before currency hedges assuming that no changes other than a single currency exchange rate movement takes place.

Operating Profit: Currency Effect +/- 10%

EUR million	
USD	130
SEK	110
GBP	55

The main cost items for Stora Enso are personnel costs and the sourcing of logs, pulpwood and recycled fibre. For example, a 1% change in personnel costs is EUR 22 million and a 1% change in fibre costs EUR 24 million per year. The recent increase in oil prices has affected several cost items such as energy, chemicals and transportation. The most important cost items relative to total costs and sales are listed in the table below.

Composition of Costs and Sales

Costs	% of Costs	% of Sales
Variable Costs	**67**	**65**
Fibre	18	18
Chemicals and fillers	9	9
Other materials	2	2
Energy	8	8
Production Service	12	11
Logistics & Commisions	12	11
Other Variable	6	6
Fixed Costs	**24**	**23**
Personnel	17	16
Other	7	7
Depreciation and amortisation	**9**	**9**
Total costs/sales	**100**	**97**
Total costs/sales Million EUR	**12 830**	**13 188**

Risks and Risk Management

Stora Enso's enterprise risk management comprises strategy, corporate governance and operational and financial risk management.

Risk Analysis

There are a number of risks that may impact financial position and performance. General risks such as GDP changes are not included in the list of risks below that have been identified as special risks for Stora Enso. The Group has identified a number of potential risks that could impact future profitability and development. These risks are described below:

- Continued competition in the paper, packaging boards and forest products industries may impact profitability and thus require major capital expenditure.
- Product prices and raw material and energy costs are cyclical, so a period of low product prices or high raw material or energy costs could affect profitability.
- Changes in consumer preferences may have an adverse effect on demand for certain products and hence profitability.
- There could be difficulty in financing significant capital investments, including future acquisitions that may be necessary to achieve planned growth.
- Planned growth depends in part on achieving successful acquisitions or mergers, and failure to do so could have an impact on competitiveness; new acquisitions may also change the risk profile of the Group.
- Reliance on imported wood may oblige the Group to pay higher prices for key raw materials or alter manufacturing operations.
- Exchange rate fluctuations may have a significant impact on financial results.
- Stora Enso may face high compliance and clean-up costs under environmental laws and regulations, which would reduce profit margins and earnings.
- The value of investments in countries outside Western Europe and North America may be affected by political, economic and legal developments in those countries.
- Reliance on outside suppliers for the majority of energy needs leaves the Group susceptible to changes in energy prices and shortage of supply.
- A few significant shareholders may influence or control the direction of the business.
- A significant portion of employees are members of labour unions and the Group may face labour disruptions that could interfere with operations and have material adverse effects on the business, financial conditions and profitability.
- Stora Enso is the subject of antitrust proceedings by European and US competition authorities and a class-action lawsuit in the USA concerning alleged anti-competitive conduct.

In order to reduce the effects of risks and achieve a more stable business, it is the policy of the Group to mitigate the impact of risks as discussed later.

Risk Management

Governance Risk

As a large international Group with different operational and legal structures, it is important to have clear governance rules. Stora Enso has well-defined Corporate Governance with bodies that have different tasks and responsibilities to secure structured handling of all important issues regarding the development of the Group.

One example is the Investment Committee, which analyses the risks related to a new investment before any decisions are taken.

For more information about the Corporate Governance rules, see pages 5–11.

Business, Sales and Earnings Risk

The risks related to factors such as demand, price, competition, customers, suppliers and raw materials are regularly monitored by each business segment and unit as a routine part of its business. These risks are also monitored and evaluated by the corporate function Finance and Strategy.

Customer Credit Risk

Outstanding receivables represent a short-term credit risk under which Stora Enso could lose money. The Group has therefore established a Corporate Credit Policy setting out the internal rules and methods to evaluate customers. All customers are regularly assessed accordingly on their creditworthiness, with their receivables being carefully controlled.

Country risks are monitored on a continuous basis and credit granting is restricted in countries where the political and/or economic situation is unstable. Currently, 88% of the Group's total receivables originates from OECD countries, which represent a very low risk.

Supplier Risk

In many areas Stora Enso is dependent on suppliers and their ability to deliver a product at the right time and of the right quality. As the table "Composition of Costs and Sales" shows, the most important inputs of goods and services are wood, transport, chemicals and energy, as well as machinery and equipment in capital expenditure projects. In some of these inputs, a limited number of suppliers is a risk. The Group uses a wide range of suppliers and monitors them in order to avoid situations that might jeopardise production or development projects.

Furthermore, the ability of suppliers to meet quality stipulations, sustainability requirements and delivery times is of major importance to the efficiency of production and investment. Accordingly, to ensure compliance with these requirements, suppliers, their products, transportation methods and other services are regularly evaluated.

Commodity and Energy Price Risk
The Group applies consistent long-term energy risk management. The price and supply risks are mitigated by entering into physical long-term contracts and financial derivatives. The Group hedges price risks in both raw material and end product markets, and supports the development of the financial hedging markets.

All financial derivatives used in hedging Group exposure to commodity and energy price risk are accounted for under IAS 39 and, where possible, hedge accounting is applied.

Property Risk
Protecting the production assets is a high priority for Stora Enso. This is done by structured methods of identifying, measuring and controlling different types of risk. The primary target is to avoid any unplanned production stoppages. Striking a balance between accepting risks and avoiding, mitigating or transferring risks is also a high priority. Optimising the total cost of risks is facilitated by the use of the Group's own captives.

Sustainability Risk
Sustainability is the umbrella term to describe responsible business operations consistent with economic, environmental and social responsibility. The Group's environmental and social responsibility policy is supported by sets of environmental and CSR principles covering the whole Stora Enso value chain including stakeholders, as well as product life cycles. Stora Enso uses a number of methods and tools to manage sustainability risk. One example is Environmental and Social Impact Assessments (ESIA) when starting new projects. The environmental and social assessments are monitored and managed by the Sustainability Committee under Stora Enso Corporate Governance policy. Read more about this in the Sustainability 2005 report.

Other operational risks
There are a number of other operational risks, such as administrative and IT risks. As it is listed in the USA, Stora Enso is in the process of establishing the reporting required by the Sarbanes-Oxley Act. This will reduce the risks in the related processes.

Financial Risk Management
The objective of financial risk management is to decrease the earnings volatility with the use of financial instruments. The Group has defined objectives and principles for financial risk management in the financial risk policy for Stora Enso. The policy is reviewed and approved regularly by the Financial and Audit Committee of Stora Enso's Board of Directors. Compliance is monitored by Internal Control and Internal Audit.

As a global company, Stora Enso is exposed to different kinds of market risk such as currency risk, funding risk, interest rate risk and financial credit risk. Stora Enso measures financial risk on a daily basis at several levels using various methods.

Currency Risk
As an international producer and seller of paper and forest products, Stora Enso is exposed to both transaction and translation risks. Transaction risk is the risk that earnings could be adversely affected by foreign exchange rate movements whilst translation risk is the Balance Sheet exposure to those movements.

In respect of exposure to exchange rate fluctuations on the value of the net assets comprising shareholders' equity, Group policy is to decrease this risk by funding investments in the same currency as net assets wherever this is possible and economically viable. The Group has therefore hedged exposures in USD, CAD, GBP, SEK and CZK under the IAS 39 hedge accounting rules for net investment in foreign entities. The following table shows the EUR equivalent amount of these hedges.

Translation Risk and Hedges as at 31 December 2005

EUR million	Euro Area	USA	Sweden	Canada	UK	Czech Republic	China	Brazil	Other	Total
Capital employed	6 024	2 319	2 155	367	10	142	201	33	852	12 103
Associated Companies	167	44	200	-	-	-	-	308	1	720
Net interest-bearing liabilities	-3 263	- 1 333	-370	61	23	-	-102	2	-102	-5 084
Minority interests	-10	-	-3	-	-	-	-2	-	-79	-94
Translation Exposure on Equity	**2 918**	**1 030**	**1 982**	**428**	**33**	**142**	**97**	**343**	**672**	**7 645**
Liability hedges*	1 431	-956	-475	-	-	-	-	-	-	-
Other hedges*										
- EUR/CAD	428	-	-	-428	-	-	-	-	-	-
- EUR/GBP	32	-	-	-	-32	-	-	-	-	-
- EUR/USD	73	-73	-	-	-	-	-	-	-	-
- EUR/CZK	122	-	-	-	-	-122	-	-	-	-
Translation Exposure after Hedges	**5 004**	**1**	**1 507**	**0**	**1**	**20**	**97**	**343**	**672**	**7 645**

* Long-term debt or forward contracts classified as hedges of investment in foreign assets

Relating to the transaction risk, the hedging policy of Stora Enso is to hedge a maximum 75% of the net transaction exposure in a specific currency according to operational/divisional decisions. In addition to these operational hedges, Group exposures may be hedged under the authority of Senior Management.

Indirect currency effects, such as when a product becomes cheaper to produce elsewhere, have an impact on prices. If this change becomes permanent, structural adjustments may be needed, hence the Group's ambition to be global can be seen as a strategy to reduce these effects.

Transaction Risk and Hedges as at 31 December 2005

EUR million	EUR	USD	GBP	SEK	CAD	JPY	Other	Total
Sales during 2005	6 500	3 400	800	1 200	100	200	1 000	13 200
Costs during 2005	-6 500	-1 900	-200	-2 100	-200	0	-800	-11 700
Net Operating Cash Flow	**0**	**1 500**	**600**	**-900**	**-100**	**200**	**200**	**1 500**
Transaction Hedges as at 31 Dec		**601**	**147**	**-553**	**0**	**68**		
Hedging Percentage as at 31 Dec, %		**40.1%**	**24.5%**	**61.4%**	**0.0%**	**34.0%**		
Average Hedging % during 2005		**31.7%**	**19.9%**	**26.6%**	**21.2%**	**41.9%**		

Funding Risk

Stora Enso's funding policy states that the average maturity of outstanding loans and committed credit facilities covering short-term borrowings should be at least four years and at the most seven years. The policy further states that the Group must have committed credit facilities to cover planned funding needs, the current portion of long-term debt, commercial paper borrowings and other uncommitted short-term loans.

During 2005 Stora Enso issued one SEK 2 billion three-year floating rate bond in May and one EUR 500 million five-year fixed rate bond in June. The bonds were issued to take advantage of favourable market conditions and to maintain the average debt maturity within the stated policy.

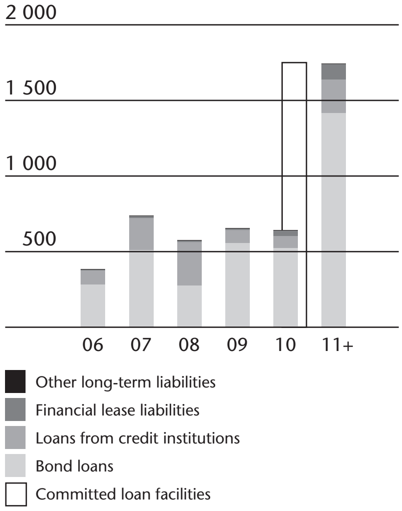
In January 2005 Stora Enso Oyj signed a EUR 1.75 billion multi-currency revolving credit facility agreement, which has a maturity of five years. The new facility replaced a previous EUR 2.5 billion facility that was signed in 2003.

Funding Structure as at 31 December 2005

Currency million/Maturity	EUR	USD	SEK
Public issues	Eurobond - EUR 375 / 2007 - EUR 500 / 2010 - EUR 518 / 2014	Global bond - USD 750 / 2011	Medium-Term Note - SEK 4 000 / 2006 - SEK 2 000 / 2008 - SEK 4 640 / 2009
Private placements	- EUR 175	- USD 429	- SEK 602
Short-term programmes	Euro Commercial Paper Programme - USD 1 000 Finnish Commercial Paper Programme - EUR 750		Swedish Commercial Paper Programme - SEK 10 000
Committed loan facilities	Syndicated Bank Facility EUR 1 750 / 2010		

Debt Repayment Schedule as at 31 December 2005

EUR million



Stora Enso considers the maintenance of two investment grade ratings an important target; the present rating and outlook from Moody's and Standard & Poor's are shown in the table below.

Credit Rating as at 31 December 2005

Agency	Short- term	Long-term	Outlook
Moody's	P-2	Baa2	Negative
Standard & Poor's	A-2/K-1	BBB+	Negative

Interest Rate Risk

Fluctuations in interest rates affect the interest expense of the Group. As a result of the cyclical nature of the industry, the Group has an interest rate risk policy to synchronise the interest cost with the earnings. The interest rate duration benchmark is 12 months with a deviation mandate of 3 to 24 months. In order to achieve this benchmark, fixed interest rates are swapped to floating using derivatives. A one percentage point parallel shift upwards in interest rates is equal to a EUR 26 million impact on net interest expenses provided that the duration and the funding structure of the Group stays constant during the year.

Financial Credit Risk

Financial credit risk is the risk Stora Enso faces in dealings with financial counterparts. For financial contracts, risk is minimised by making agreements only with leading financial institutions and industrial companies that have a high credit rating. Funds can be invested in those counterparties whose credit rating is equal to or better than A1/P1 short-term or AA-/aa3 long-term rating. Counterparty risk is closely monitored, with the total exposure calculated on a regular basis. The CFO approves investments into counterparties having a rating below target.

For more information on Risk Management, see Note 2 on page 48.

For more information on Financial Instruments, see Note 25 on pages 88–89.

Weighted Average Cost of Capital

WACC represents the aggregate cost of debt and equity. The cost of equity represents a risk-free long-term interest rate of 4.2% with an added equity risk premium of 4%, giving an aggregate cost after tax of 8.2%. The pre-tax cost of equity is approximately 12% and, with a debt/equity ratio of 0.8 and using a spread of 0.8% on the debt, the WACC before tax is around 8.7%, being the figure applicable to the ROCE calculations. The corresponding WACC after tax is 6.1%.

The value created by segment is shown below, where the pre-tax WACC based on average operating capital is deducted from operating profit, excluding non-recurring items, to give the value created. The same pre-tax WACC is applied to all segments except for Wood Supply, which uses a 1.5% lower rate as a result of lower risk at operating level. The pre-tax WACC used in the table below was 8.7% for 2003, 2004 and 2005. The Group has not been able to deliver a value increase during the last few years due to weak market conditions.

Operating Profit and Value Statement by Segment

	Operating Profit			Value Statement		
	Year Ended 31 December			Year Ended 31 December		
EUR million	**2003**	**2004**	**2005**	**2003**	**2004**	**2005**
Publication Paper	129.0	104.6	193.3	-233.4	-267.6	-188.9
Fine Paper	138.9	54.5	62.2	-188.7	-189.7	-179.1
Merchants	-6.7	11.2	3.3	-20.0	-3.2	-22.5
Packaging Boards	284.2	271.3	220.0	26.2	9.6	-43.8
Wood Products	26.5	34.7	-3.1	-20.4	-23.7	-62.1
Wood Supply	116.5	32.3	-11.8	-11.7	-9.6	-36.0
Other	-46.6	-81.9	-106.4	-	-	-
Goodwill amortisation	-116.0	-90.3	-	-	-	-
Group Total, excl. Non-Recurring Items	**525.8**	**336.4**	**357.5**	**-488.6**	**-631.7**	**-632.5**

Consolidated Financial Statements

Consolidated Income Statement

EUR million	Note	Year Ended 31 December 2003	2004	2005
Sales	4	**12 172.3**	**12 395.8**	**13 187.5**
Other operating income	6	55.0	180.7	80.1
Changes in inventories of finished goods and work in progress		63.5	39.0	71.7
Change in net value of biological assets	13	11.6	7.1	-6.7
Materials and services		-6 218.2	-6 607.6	-7 297.3
Freight and sales commissions		-1 286.8	-1 367.8	-1 493.0
Personnel expenses	7, 21	-2 297.6	-1 937.3	-2 216.6
Other operating expenses	6	-828.0	-831.8	-991.9
Depreciation, amortisation and impairment charges	11	-1 200.4	-1 172.0	-1 427.7
Operating Profit / (Loss)	4	**471.4**	**706.1**	**-93.9**
Share of results in associated companies	14	-23.0	38.9	67.2
Financial income	8	311.5	141.0	213.0
Financial expense	8	-549.2	-247.0	-364.6
Profit / (Loss) before Tax		**210.7**	**639.0**	**-178.3**
Income tax	9	-67.0	108.8	52.0
Net Profit / (Loss) for the Period		**143.7**	**747.8**	**-126.3**
Attributable to:				
Equity Holders of the Parent Company	19	137.9	739.7	-130.0
Minority Interests	20	5.8	8.1	3.7
Net Profit / (Loss) for the Period		**143.7**	**747.8**	**-126.3**
Earnings per Share				
Basic earnings / (loss) per share, EUR	31	0.16	0.89	-0.16
Diluted earnings / (loss) per share, EUR	31	0.16	0.89	-0.16

The accompanying Notes are an integral part of these Consolidated Financial Statements

Consolidated Balance Sheet

EUR million		Note	2003	2004	2005
			As at 31 December		
Assets					
Fixed Assets and Non-current Investments					
Goodwill	O	12	902.6	787.9	961.8
Other intangible fixed assets	O	12	80.4	108.1	194.1
Property, plant and equipment	O	12	9 964.5	9 754.8	9 936.8
		12	10 947.5	10 650.8	11 092.7
Biological assets	O	13	1 587.8	64.6	76.8
Emission rights	O		-	-	43.7
Investment in associated companies	A	14	319.0	568.1	719.9
Available-for-Sale: Listed securities	I	15	227.7	220.1	211.6
Available-for-Sale: Unlisted shares	O	15	140.8	132.8	403.6
Non-current loan receivables	I	18	44.3	233.1	127.6
Deferred tax assets	T	9	12.1	11.4	72.2
Other non-current assets	O	16	170.3	210.5	269.4
			13 449.5	**12 091.4**	**13 017.5**
Current Assets					
Inventories	O	17	1 623.5	1 771.3	2 150.5
Tax receivables	T	9	182.5	160.9	108.5
Short-term operative receivables	O	18	1 703.3	1 865.3	2 157.9
Interest-bearing receivables	I	18	781.8	248.7	309.2
Cash and cash equivalents	I		201.5	274.3	351.4
			4 492.6	**4 320.5**	**5 077.5**
Total Assets			**17 942.1**	**16 411.9**	**18 095.0**
Equity and Liabilities					
Equity Attributable to Parent Company Shareholders					
Share capital		19	1 469.3	1 423.3	1 382.1
Share premium fund			1 237.4	1 009.2	784.8
Treasury shares		19	-258.0	-180.8	-259.9
Other comprehensive income		25	114.6	67.6	468.0
Cumulative translation adjustment		26	-197.1	-218.9	-127.1
Retained earnings			5 434.0	5 196.2	5 527.4
Net profit for the period			137.9	739.7	-130.0
			7 938.1	**8 036.3**	**7 645.3**
Minority Interests		20	60.3	136.1	93.6
Total Equity			**7 998.4**	**8 172.4**	**7 738.9**
Non-current Liabilities					
Post-employment benefit provisions	O	21	911.9	637.8	494.0
Other provisions	O	23	97.1	60.9	142.6
Deferred tax liabilities	T	9	1 771.3	1 314.6	1 076.2
Non-current debt	I	22	3 404.6	3 328.1	4 353.9
Other non-current operative liabilities	O	24	98.5	174.0	204.7
			6 283.4	**5 515.4**	**6 271.4**
Current Liabilities					
Current portion of non-current debt	I	22	359.5	102.1	385.0
Interest-bearing liabilities	I	22	1 410.1	597.4	1 345.0
Current operative liabilities	O	24	1 538.3	1 673.1	1 975.4
Tax liabilities	T	9	352.4	351.5	379.3
			3 660.3	**2 724.1**	**4 084.7**
Total Equity and Liabilities			**17 942.1**	**16 411.9**	**18 095.0**

Items designated ”O” comprise Operative Capital
Items designated ”I” comprise Interest-bearing Net Liabilities
Items designated ”T” comprise Net Tax Liabilities
Items designated ”A” comprise Associated Companies

The accompanying Notes are an integral part of these Consolidated Financial Statements

Consolidated Cash Flow Statement

EUR million	Notes	Year Ended 31 December 2003	2004	2005
Cash Flow from Operating Activities				
Net profit / (loss) for the period		143.7	747.8	-126.3
Reversal of non-cash items:				
Taxes		67.0	-108.8	-52.0
Depreciation, amortisation and impairment charges	11	1 200.4	1 172.0	1 427.7
Change in value of biological assets	13	-11.6	-7.1	6.7
Share of results of associated companies	14	23.0	-38.9	-67.2
Profits and losses on sale of fixed assets and investments	6	-10.5	-125.8	5.0
Net financial income	8	237.7	106.0	151.6
Interest received		24.6	15.6	29.0
Interest paid, net of amounts capitalised		-228.1	-182.3	-166.2
Dividends received	8, 14	5.8	24.6	16.1
Other financial items, net		-0.4	17.3	3.6
Income taxes paid	9	-278.0	-114.2	-209.0
Change in net working capital, net of businesses acquired or sold		471.0	-100.8	-278.7
Net Cash Provided by Operating Activities		**1 644.6**	**1 405.4**	**740.3**
Cash Flow from Investing Activities				
Acquisition of subsidiary shares		-128.2	-176.4	-323.9
Acquisition of shares in associated companies	14	-103.5	-250.4	-55.7
Acquisition of available-for-sale investments	15	-12.6	-13.2	-8.6
Capital expenditure	4, 12	-1 226.7	-975.1	-1 129.6
Investment in biological assets	13	-6.2	-4.5	-15.7
Proceeds from disposal of subsidiary shares		-	197.9	1.6
Proceeds from disposal of shares in associated companies	14	0.4	-	-
Proceeds from disposal of available-for-sale investments	15	18.5	32.8	97.4
Proceeds from sale of fixed assets	12	47.5	36.4	14.5
Proceeds from (payment of) non-current receivables, net		339.2	-182.5	98.3
Net Cash Used in Investing Activities		**-1 071.6**	**-1 335.0**	**-1 321.7**
Cash Flow from Financing Activities				
Proceeds from (payment of) non-current liabilities, net		-957.4	1 261.2	671.3
Proceeds from (payment of) current borrowings, net		1 141.2	-697.4	674.9
Dividends paid		-387.7	-375.7	-365.3
Minority dividends less equity injections	20	-1.9	-1.9	-0.2
Options Exercised		-0.9	1.6	-
Repurchase of own shares	19	-319.1	-198.6	-344.7
Net Cash Used in Financing Activities		**-525.8**	**-10.8**	**636.0**
Net Increase (Decrease) in Cash and Cash Equivalents		**47.2**	**59.6**	**54.6**
Cash and bank in acquired companies		3.0	45.9	10.2
Cash and bank in divested companies		-	-29.5	-
Translation adjustment		-17.2	-3.2	12.3
Cash and cash equivalents at beginning of year		168.5	201.5	274.3
Cash and Cash Equivalents at Year End		**201.5**	**274.3**	**351.4**

The accompanying Notes are an integral part of these Consolidated Financial Statements.

Consolidated Cash Flow Statement

Supplemental Cash Flow Information

EUR million		Notes	2003	2004	2005
			Year Ended 31 December		
Change in Net Working Capital consists of:					
Change in inventories			-63.5	-106.8	-254.7
Change in interest-free receivables:	Current		188.1	-175.7	-51.4
	Non-current		26.8	-50.5	-3.4
Change in interest-free liabilities:	Current		-62.2	-289.1	-7.1
	Non-current		68.7	77.0	28.1
Proceeds from (payment of) short-term Interest-bearing receivables			313.1	444.3	9.8
			471.0	**-100.8**	**-278.7**
Non-cash Investing and Financing Activities:					
Total capital expenditure		4, 12	1 248.2	975.1	1 129.6
Amounts paid			1 226.7	975.1	1 129.6
Finance lease obligations incurred			**21.5**	-	-
Acquisition of Group Companies					
Cash Flow on Acquisitions					
Purchase consideration on acquisitions			128.2	176.4	323.9
Cash and cash equivalents in acquired companies			-3.0	-45.9	-10.3
			125.2	130.5	313.6
Non-cash Transaction					
Associate shares held		14	-	3.9	5.0
Total Acquisition Value			**125.5**	**134.4**	**318.6**
Acquired Net Assets					
Operating working capital			31.2	44.0	171.4
Operating fixed assets		12	206.4	190.2	388.3
Interest-bearing assets less cash and cash equivalents			5.7	0.7	-
Tax liabilities		9	-0.2	-19.2	-59.8
Interest-bearing liabilities			-90.3	-11.4	-274.6
Minority interests		20	-27.6	-69.9	93.3
Total Net Assets Acquired			**125.2**	**134.4**	**318.6**
Disposal of Group Companies					
Cash Flow on Disposals					
Cash flow on disposal			-	197.9	1.6
Cash and cash equivalents in divested companies			-	-29.5	-
			-	168.4	1.6
Net Assets Sold					
Operating working capital			-	62.2	-
Operating fixed assets		12	-	94.1	-
Biological assets		13	-	1 541.2	-
Interest-bearing assets less cash and cash equivalents			-	23.1	1.6
Tax liabilities		9	-	-222.9	-
Interest-bearing liabilities			-	-1 518.8	-
Gain on sale		12	-	113.0	-
			-	91.9	1.6
Provision for unrealised gain		24	-	76.5	-
Total Net Assets Sold			**-**	**168.4**	**1.6**

The accompanying Notes are an integral part of these Consolidated Financial Statements

Statement of Changes in Group Shareholders' Equity

EUR million	Share Capital	Share Premium	Treasury Shares	OCI	CTA	Retained Earnings	Total
Balance at 31 December 2002	**1 529.6**	**1 554.0**	**-314.9**	**233.4**	**-144.4**	**5 162.3**	**8 020.0**
Effect of adopting IAS 41 Agriculture							
Subsidiary companies	-	-	-	-	-	615.4	615.4
Associated companies	-	-	-	-	-	44.0	44.0
Balance at 1 January 2003	**1 529.6**	**1 554.0**	**-314.9**	**233.4**	**-144.4**	**5 821.7**	**8 679.4**
Repurchase of Stora Enso Oyj shares	-	-	-319.1	-	-	-	-319.1
Cancellation of Stora Enso Oyj shares	-60.5	-315.5	376.0	-	-	-	-
Dividends paid (EUR 0.45 per share)	-	-	-	-	-	-387.7	-387.7
Options exercised	0.2	-1.1	-	-	-	-	-0.9
Net profit for the period	-	-	-	-	-	137.9	137.9
OCI entries	-	-	-	-118.8	-	-	-118.8
Translation adjustment	-	-	-	-	-52.7	-	-52.7
Balance at 31 December 2003	**1 469.3**	**1 237.4**	**-258.0**	**114.6**	**-197.1**	**5 571.9**	**7 938.1**
Repurchase of Stora Enso Oyj shares	-	-	-198.6	-	-	-	-198.6
Cancellation of Stora Enso Oyj shares	-47.3	-228.5	275.8	-	-	-	-
Dividends paid (EUR 0.45 per share)	-	-	-	-	-	-375.7	-375.7
Options exercised	1.3	0.3	-	-	-	-	1.6
Net profit for the period	-	-	-	-	-11.7	739.7	728.0
OCI entries	-	-	-	-47.0	-	-	-47.0
Translation adjustment	-	-	-	-	-10.1	-	-10.1
Balance at 31 December 2004	**1 423.3**	**1 009.2**	**-180.8**	**67.6**	**-218.9**	**5 935.9**	**8 036.3**
Repurchase of Stora Enso Oyj shares	-	-	-344.7	-	-	-	-344.7
Cancellation of Stora Enso Oyj shares	-41.2	-224.4	265.6	-	-	-	-
Dividends paid (EUR 0.45 per share)	-	-	-	-	-	-365.3	-365.3
Buy-out of Minority Interests	-	-	-	-	-	-43.2	-43.2
Net profit for the period	-	-	-	-	0.2	-130.0	-129.8
OCI entries	-	-	-	400.4	-	-	400.4
Translation adjustment	-	-	-	-	91.6	-	91.6
Balance at 31 December 2005	**1 382.1**	**784.8**	**-259.9**	**468.0**	**-127.1**	**5 397.4**	**7 645.3**

OCI = Other Comprehensive Income – see Note 25

CTA = Cumulative Translation Adjustment – see Note 26

Total Equity

	As at 31 December		
EUR million	**2003**	**2004**	**2005**
Equity attributable to parent company shareholders	7 938.1	8 036.3	7 645.3
Equity attributable to Minority Interests	60.3	136.1	93.6
Total Equity	**7 998.4**	**8 172.4**	**7 738.9**

Full details of minority equity are given in Note 20

Distributable Funds

	As at 31 December		
EUR million	**2003**	**2004**	**2005**
Retained earnings	5 571.9	5 935.9	5 397.4
Translation adjustment	-197.1	-218.9	-127.1
Treasury shares	-258.0	-180.8	-259.9
Effect of adopting IAS 41	-659.4	-	-
	4 457.4	5 536.2	5 010.4
Untaxed reserves in retained earnings	-2 053.3	-1 876.4	-1 661.3
Distributable Funds	**2 404.1**	**3 659.8**	**3 349.1**

The accompanying Notes are an integral part of these Consolidated Financial Statements

Notes to the Consolidated Financial Statements

Note 1 Accounting Principles

Principal Activities

Stora Enso Oyj ("the Company") is a Finnish limited liability company organised under the laws of the Republic of Finland and with its registered address at Kanavaranta 1, 00160 Helsinki. Its shares are listed on the Helsinki, Stockholm and New York Exchanges. The operations of Stora Enso Oyj and its subsidiaries (together "Stora Enso" or the "Group") are organised into global product divisions, being Publication Paper, Fine Paper (including Merchants), Packaging Boards and Forest Products, incorporating Wood Products and Wood Supply. Supporting areas in segment Other comprise Energy and Head Office, together with other corporate functions. The Group's main market is Europe, though it has a substantial presence in the Americas.

These Financial Statements were approved by the Board on 1 February 2006.

Basis of Preparation

The Consolidated Financial Statements of Stora Enso have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adoted by the European Union including International Accounting Standards ("IAS") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). However, the differences between full IFRS and EU-adopted IFRS do not impact these Financial Statements, being the consolidated Financial Statements of Stora Enso Oyj and its subsidiaries which have been prepared under the historical cost convention except as disclosed in the accounting policies below; for example, available-for-sale investments and derivative financial instruments are shown at fair value.

Use of Estimates

The preparation of Consolidated Financial Statements conforming to IFRS accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the dates of the Financial Statements and the reported amounts of revenues and expenses during the period. Actual results may differ from these estimates.

Consolidation Principles

Stora Enso was formed as a combination of Enso Oyj and Stora Kopparbergs Bergslags Aktiebolag (publ) in December 1998 and, as a result of the merger, the latter became a subsidiary of Stora Enso Oyj (formerly Enso Oyj). The Stora Enso merger was accounted for as a uniting of interests under IAS. The business of Stora Kopparbergs Bergslags Aktiebolag was subsequently transferred in 2003 to Stora Enso AB and the company was dissolved.

The Consolidated Financial Statements include the parent company, Stora Enso Oyj, and all companies in which it holds, directly or indirectly, over 50% of the voting rights. The Financial Statements of some companies, which Stora Enso controls through management agreements with majority shareholders, but in which Stora Enso holds less than 50% of the voting rights, are also consolidated. The principal subsidiaries are listed in Note 28.

Associated companies, where Stora Enso exercises significant influence, generally considered to be where the Group has voting rights of between 20% and 50%, are accounted for using the equity method, which involves recognising in the Income Statement the Group's share of the associate's profit or loss for the year less any amortised goodwill. These companies represent undertakings in which the Group has significant influence, but which it does not control; the most significant such companies are listed in Note 14. The Group's interest in an associated company is carried in the Balance Sheet at an amount that reflects its share of the net assets of the associate together with goodwill on acquisition, as amortised, less any impairment. When the Group share of losses exceeds the carrying amount of an investment, the carrying amount is reduced to nil and any recognition of further losses ceases unless the Group is obliged to satisfy obligations of the investee which it has guaranteed or is otherwise committed to.

Acquired companies are accounted for under the purchase method whereby they are included in the Consolidated Financial Statements from their acquisition date, whereas, conversely, divestments are included up to their date of sale.

All intercompany transactions, receivables, liabilities and unrealised profits, as well as intragroup profit distributions, are eliminated. Accounting policies for subsidiaries and all equity accounted investments are adjusted where necessary to ensure consistency with the policies adopted by Stora Enso. Minority interests are presented as a separate component of equity.

Minority Interests

Minority Interests are presented within the equity of the Group on the Balance Sheet. The profit or loss attributable to both Minority Interests and to equity holders of the parent company is presented on the face of the Income Statement after the profit for the period, the Minority Interest in the result no longer being shown as an item of income or expense but instead as an allocation of profit or loss. Transactions between Minority shareholders and Group shareholders are now transactions within equity and are thus shown in the Statement of Changes in Shareholder Equity and Note 20, Minority Interests.

Foreign Currency Transactions

Transactions in foreign currencies are recorded at the rate of exchange prevailing at the transaction date, but at the end of the month, foreign currency-denominated receivables and liabilities are translated using the month end exchange rate. Foreign exchange differences for operating items are recorded in the appropriate income statement account before operating profit, and, for financial assets and liabilities, are entered in the financial items of the Income Statement, except when deferred in equity as qualifying net investment hedges. Translation differences on non-monetary financial assets, such as equities classified as Available-for-Sale, are included in the fair value reserve in equity.

Foreign Currency Translations - Subsidiaries

The Income Statements of subsidiaries, whose functional and presentational currencies are not Euros, are translated into the Group reporting currency using the average exchange rates for the year, whereas the Balance Sheets of such subsidiaries are translated using the exchange rates ruling on 31 December. Exchange differences arising from the retranslation of the net investments in foreign entities, being non-Euro area foreign subsidiary and associated undertakings, and of financial instruments which are designated as and are hedges of such investments, are recorded directly in shareholders' equity in the Cumulative Translation Adjustment ("CTA") as shown in Note 26. The cumulative translation differences of divestments and liquidations are combined with their gain or loss on disposal. CTA is also expensed on the repayment of share capital, return of investment and any partial disposal of a business unit.

Derivative Financial Instruments & Hedging

Financial derivatives are initially recognised in the Balance Sheet at cost and subsequently measured at their fair value on each Balance Sheet date, though the method of recognising the resulting gains or losses is dependent on the nature of the item being hedged. When derivative contracts are entered into, the Group designates them as either hedges of the fair value of recognised assets or liabilities (fair value hedge), hedges of forecast transactions or firm commitments (cash flow hedge), hedges of net investments in foreign entities or as derivative financial instruments not meeting the hedge accounting criteria.

Changes in the fair value of derivatives designated and qualifying as fair value hedges, and which are highly effective, are recorded in the Income Statement, along with any changes in the fair value of the hedged assets or liabilities attributable to the hedged risk.

Changes in the fair value of derivatives designated and qualifying as cash flow hedges, and which are effective, are recognised in equity to the Hedging Reserve within Other Comprehensive Income ("OCI"). The cumulative gain or loss of a derivative deferred in equity is transferred to the Income Statement and classified as revenue or expense in the same period in which the hedged item affects the Income Statement.

When a hedging instrument expires, is sold, terminated or exercised, has its designation revoked or it no longer meets the criteria for hedge accounting under IAS 39, any cumulative gain or loss deferred in equity at that time remains in equity and is accounted for as an adjustment to revenue or expense when the committed or forecast transaction is ultimately recognised in the Income Statement. However, if the forecast transaction is no longer expected to occur, the cumulative gain or loss reported in equity, from the period when the hedge was effective, shall be recognised in the Income Statement immediately.

Certain derivative transactions, while providing effective economic hedges under Group risk management policies, do not qualify for hedge accounting under the specific rules in IAS 39 and therefore changes in the fair value of such non-qualifying hedge instruments are immediately recognised in the Income Statement under financial items. All derivatives not qualifying for hedge accounting are also fair valued at each Balance Sheet date with the result immediately recognised in the Income Statement under financial items.

Hedges of net investments in foreign entities are accounted for similarly to cash flow hedges, the Group using either derivatives or borrowings for this purpose. Where the hedging instrument is a derivative, any gain or loss thereon relating to the effective portion of the hedge is recognised in equity in CTA; the gain or loss relating to the ineffective portion is immediately recognised in the Income Statement. In addition, exchange gains and losses arising on the translation of a borrowing that hedges such an investment, including any ineffective portion of the hedge, are also recognised in the CTA.

At the inception of a transaction the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all financial instruments designated as hedges to specific assets and liabilities or to specific firm commitments or forecast transactions. The Group also documents its assessment, both at the hedge inception and on an ongoing basis, whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair value or cash flows of hedged items.

The fair values of publicly traded derivatives, along with trading and available-for-sale securities, are based on quoted market prices at the Balance Sheet date; the fair values of interest rate swaps are calculated as the present value of the estimated future cash flows while the fair values of forward foreign exchange contracts are determined using forward exchange market rates at the Balance Sheet date. In assessing the fair values of non-traded derivatives and other financial instruments, the Group uses a variety of methods and makes assumptions based on market conditions at each Balance Sheet date. Quoted market prices or dealer quotes for identical or similar instruments are used for long-term debt. Other techniques, such as option pricing models and estimated discounted value of future cash flows, are used to determine fair values for the remaining financial instruments. The face values, less any estimated credit adjustments, for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair values of financial liabilities for disclosure purposes are estimated by discounting the future contractual cash flows at the current market interest rates available to the Group for similar financial instruments.

Revenue Recognition
Sales comprise products, raw materials, energy and services, less indirect sales tax and discounts, and are adjusted for exchange differences on sales in foreign currency. Sales are recognised after Stora Enso has transferred the risks and rewards of ownership to the buyer and the Group retains neither a continuing right to dispose of the goods, nor effective control of those goods; usually this means that sales are recorded upon delivery of goods to customers in accordance with agreed terms of delivery.

Stora Enso terms of delivery are based on Incoterms 2000, being the official rules for the interpretation of trade terms as issued by the International Chamber of Commerce. The main categories of terms covering Group sales are:

- "D" terms, under which the Group is obliged to deliver the goods to the buyer at the agreed destination, usually the buyer's premises, in which case the Point of Sale is the moment of delivery to the buyer.
- "C" terms, whereby the Group arranges and pays for the carriage and certain other costs, though the Group ceases to be responsible for the goods once they have been handed over to the carrier in accordance with the relevant term. The Point of Sale is thus the handing over of the goods to the carrier contracted by the Group for the carriage to the agreed destination.
- "F" terms, being where the buyer arranges and pays for the carriage, thus the Point of Sale is the handing over of goods to the carrier contracted by the buyer.

Where local rules may result in invoices being raised in advance of the above, the effect is of this revenue advancement is quantified and adjusted for.

Revenues from services are recorded when the service has been performed.

Shipping and Handling Costs
Where Stora Enso is responsible for arranging transport for its sales, such costs are not billed separately but are included in revenue in the value of the goods billed to customers; the shipping costs incurred are shown in cost of sales.

Research and Development
Research costs are expensed as incurred in other operating expenses in the Consolidated Income Statement. Development costs are also expensed as incurred unless it is assured that they will generate future income, in which case they are capitalised as intangible assets and depreciated over the period of the income streams.

Advertising Costs
Advertising costs are expensed as incurred.

Computer Software Development Costs
Development costs or acquisition costs of new software clearly associated with an identifiable and unique product, which will be controlled by the Group and has probable benefit exceeding its cost beyond one year, are recognised as an intangible asset and depreciated over the software's expected useful life. Associated costs include staff costs of the implementation team and an appropriate portion of overhead, but exclude the cost of maintaining the software, which is expensed as incurred. Website costs are expensed as incurred.

Environmental Remediation Costs
Environmental expenditures resulting from the remediation of an existing condition caused by past operations, and which do not contribute to current or future revenues, are expensed as incurred. Environmental liabilities are recorded, based on current interpretations of environmental laws and regulations, when it is probable that a present obligation has arisen and the amount of such liability can be reliably estimated. Amounts accrued do not include third-party recoveries.

Discontinuing Operations and Assets Held for Sale
A discontinuing operation represents a separate major line of business for which the assets less liabilities and net financial results may be distinguished physically, operationally and for financial reporting purposes, that has been disposed or is classified as Held for Sale. Assets are classified as such when it is highly probable that the carrying amount of the asset will be recovered through a sale transaction rather than continuing use. The pre-tax gain or loss on disposal of discontinuing operations is shown as a separate item in the Consolidated Income Statement.

Income Taxes
The Group income tax expense includes taxes of Group companies based on taxable profit for the period, together with tax adjustments for previous periods, the change in deferred income taxes and share of tax of associated companies. The Balance Sheet also includes amounts in current tax relating to the tax effect of equity hedging, as shown in the Income Tax Reconciliation in Note 9.

Deferred income taxes are provided using the liability method, as measured with enacted, or substantially enacted, tax rates, to reflect the net tax effects of all temporary differences between the financial reporting and tax bases of assets and liabilities. Principal temporary differences arise from depreciation on property plant and equipment, revaluation of net assets in acquired companies, fair valuation of available-for-sale investments and financial derivatives, intercompany inventory profits, untaxed reserves and tax losses carried forward; the latter is recognised as an asset to the extent that it is probable that future taxable profits will be available against which unused tax losses can be utilised.

Temporary differences for accumulated depreciation and untaxed reserves (appropriations) are recorded in shareholders' equity and deferred tax liability in the Consolidated Balance Sheet, but under the Companies Act, such items in equity are excluded from distributable funds.

Goodwill
Goodwill represents synergies expected by the Group on an acquisition, being computed as the excess of the cost of an acquisition over the fair value of the Group share of net assets of the acquired subsidiary/associated undertaking at the acquisition date. Such excess acquisition values are compared with the discounted cashflows for expected synergies and are allocated to the units expected to benefit from the

acquisition synergies. If however the estimated cashflows do not cover the excess values, then impairment results. Goodwill arising on the acquisition of non-Euro foreign entities is treated as an asset of the foreign entity denominated in the local currency and translated at the closing rate.

Goodwill is tested at least annually for impairment but otherwise has historically been amortised on a straight-line basis over its expected useful life, which varied from 5 to 20 years depending on the nature of the acquisition. New rules however came into effect in 2004 whereby amortisation of goodwill ceased from 1 April 2004 for new acquisitions and 1 January 2005 for existing goodwill. The only value adjustments to the carrying value of goodwill from 1 January 2005 results from the annual impairment testing.

Intangible Assets

Intangible assets are stated at historical cost and are amortised on a straight-line basis over expected useful lives which usually vary from 3 to 10 years, though up to 20 years for patents. Intangible items acquired must be recognised as assets separately from goodwill if they meet the definition of an asset, are either separable or arise from contractual or other legal rights and their fair value can be measured reliably.

Intangible assets recognised separately from goodwill in acquisitions consist of marketing and customer related or contract and technology based intangible assets. Typical marketing and customer related assets are trademarks, trade names, service marks, collective marks, certification marks, customer lists, order or production backlogs, customer contracts and the related customer relationships. The contract and technology based intangible assets are normally licensing and royalty agreements or patented technology and trade secrets such as confidential formulas, processes or recipes. The fair value determination of customer contracts and related relationships is derived from expected retention rates and cash flow over the customers' remaining estimated life time. The value of trade marks is derived from discounted cash flow analysis using the relief from royalty method.

Property, Plant and Equipment

Property, plant and equipment acquired by Group companies are stated at historical cost, augmented where appropriate by asset retirement costs; assets coming into the Group on the acquisition of a new subsidiary are stated at their fair values at the date of acquisition. Depreciation is computed on a straight-line basis, as adjusted for any impairment and disposal charges; the Balance Sheet value represents cost less accumulated depreciation and any impairment charges. Interest costs on borrowings to finance the construction of these assets are capitalised as part of the cost during the construction period.

Land is not depreciated as it is deemed to have an indefinite life, but otherwise depreciation is based on the following expected useful lives:

Asset class	Depreciation Years
Buildings, industrial	10–50
Buildings, residential	20–50
Buildings, office	20–50
Groundwood mills	15–20
Hydro-electric power	40
Paper mills, main machines	20
Board mills, main machines	20
Pulp mills, main machines	20
Heavy machinery	10–20
Converting factories	10–15
Sawmills	10–15
Computers	3–5
Vehicles	5
Office equipment	3–5
Railway, harbours	20–25
Forest roads	10–35
Roads, fields, bridges	15–20
Intangible assets	3–20

Ordinary maintenance and repair charges are expensed as incurred, however, the costs of significant renewals and improvements are capitalised and depreciated over the remaining useful lives of the related assets. Retirements, sales and disposals of property, plant and equipment are recorded by deducting the cost and accumulated depreciation from the accounting records with any resulting terminal depreciation adjustments reflected in impairment charges in the Income Statement; capital gains are shown in Other Operating Income.

Impairment

The carrying amounts of assets are reviewed at each Balance Sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated as the higher of the net selling price and the value in use with an impairment loss being recognised whenever the carrying amount exceeds the recoverable amount.

A previously recognised impairment loss on plant and equipment is reversed if there has been a change in the estimates used to determine the recoverable amount, however not to an extent higher than the carrying amount that would have been determined had no impairment loss been recognised in prior years. For goodwill, however, a recognised impairment loss is not reversed.

Whilst intangible assets and property, plant and equipment is subject to impairment testing at the cash generating unit ("CGU") level, goodwill is subject to impairment testing at the level of CGU or groups of CGUs.

Accounting for Leases

Leases of property, plant and equipment, where the Group has substantially all the rewards and risks of ownership, are classified as finance leases. Finance leases are capitalised at the commencement of the lease at the lower of the fair value of the leased property or the estimated present value of the minimum lease payments. Each lease payment is allocated between the capital liability and finance charges, so as to achieve a constant interest rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in interest-bearing liabilities with the interest element of the finance charge being taken to the Income Statement over the lease period. Property plant and equipment acquired under finance leasing contracts are depreciated over the lesser of the useful life of the asset or lease period.

Leases of assets, where the lessor retains all the risks and benefits of ownership, are classified as operating leases and the lease payments are expensed on a straight-line basis over the lease periods. When an operating lease is terminated before the expiry of the lease period, any obligatory payment to the lessor by way of penalty is recognised as an expense in the period in which termination takes place. Lease termination benefits are recognized on a discounted basis.

Government Grants

Government grants relating to the purchase of property, plant and equipment are deducted from the carrying value of the asset, the net cost being capitalised.

Biological Assets

IAS 41 Agriculture, requires that biological assets, such as standing trees, are shown on the Balance Sheet at market value. Group forests are thus accounted for at fair value less estimated point-of-sale costs at harvest, there being a presumption that fair values can be measured for these assets.

The valuation of Stora Enso's forest assets is based on discounted cash flow models whereby the fair value of the biological assets is calculated using cash flows from continuous operations, that is, based on sustainable forest management plans taking into account growth potential. The yearly harvest made from the forecasted tree growth is multiplied by actual wood prices and the cost of fertiliser and harvesting is then deducted. The fair value of the biological asset is measured as the present value of the harvest from one growth cycle based on the productive forestland, taking into consideration environmental restrictions and other reservations. Biological assets that are physically attached to land are recognised and measured at their fair value separately from the land.

Emission Rights & Trading

The Group's participation in the European Emissions Trading Scheme, in which it has been allocated allowances to emit a fixed tonnage of carbon dioxide in a fixed period of time, gives rise to an intangible asset for the allowances, a government grant and a liability for the obligation to deliver allowances equal to the emissions that have been made during the compliance period. Emissions Allowances recorded as intangible assets are recognised when the Group is able to exercise control and are measured at fair value at the date of initial recognition. The liability to deliver allowances is recognised based on actual emissions; this liability will be settled using allowances on hand, measured at the carrying amount of those allowances, with any excess emissions being measured at the market value of the allowances at the period end.

In the Income Statement, the Group will expense, under Materials & Services, emissions made at the fair value of the rights at their grant date, together with purchased emission rights at their purchase price. Such costs will be offset under Other Operating Income by the income from the original grant of the rights used at their fair value at the grant date, together with income from any sale of surplus rights. The Income Statement will thus be neutral in respect of all rights consumed that were within the original grant, any net effect representing either the costs of purchasing additional rights to cover excess emissions or the sale of unused rights.

Inventories

Inventories are reported at the lower of cost and net realisable value with cost being determined by the first-in first-out (FIFO) method or, alternatively, weighted average cost where it approximates FIFO. The cost of finished goods and work in progress comprises raw material, direct labour, depreciation, other direct costs and related production overhead but excludes interest expenses. Net realisable value is the estimated selling price in the ordinary course of business, less costs of completion and sale.

Where market conditions result in the manufacturing costs of a product exceeding its net realisable value, a valuation allowance is made. Valuation provisions are also made for old, slow moving and obsolete finished goods and spare parts. Such valuation allowances are detailed in Note 10 Valuation Provisions and Note 17 Inventories and, in the Balance Sheet, are deducted from the carrying value of the inventories.

Trade Receivables

Trade receivables are reported at their anticipated realisable value, an estimate being made for doubtful receivables based on an objective review of all outstanding amounts at the year-end.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other liquid investments with original maturity of less than three months. Bank overdrafts are included in short-term borrowings under current liabilities.

Investments

The Group classifies its investments into three categories of trading, held-to-maturity and available-for-sale. Investments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments, to be classified as current assets, whereas investments with fixed maturity, which management has the intent and ability to hold to maturity, are classified as held-to-maturity, to be disclosed in non-current assets; during the period the Group held no investments in these categories. Investments intended to be held for an indefinite period of time, but which may be sold in response to liquidity needs or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the Balance Sheet, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

Gains and losses on available-for-sale investments are booked to equity in OCI and, when they are sold, the accumulated fair value adjustments are then included in the Income Statement. The values of all investments, where the market value has been below the carrying value for more than a year, are reviewed at least annually for permanent impairment. If any impairment becomes apparent, then that part of the fair value reserve (OCI) represented by the impairment is transferred to the Income Statement.

Loan Receivables

Loan receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are recorded at cost and are subject to regular and systematic review as to collectibility and available guarantees. If any loan receivable is estimated to be unrecoverable, a provision is made for the shortfall between the carrying amount and the present value of the expected cash flows. Interest income on loan receivables is included within net financial items.

Debt

Debt is recognised initially as proceeds received, net of transaction costs incurred. In subsequent periods, it is stated at amortised cost using the effective yield method; any difference between proceeds, net of transaction costs, and redemption value is recognised in the Income Statement over the period of the borrowings. Interest expenses are accrued for and recorded in the Income Statement for each period.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Environmental provisions for site reinstatement are made when a project starts production, the capitalised cost of the provision, along with the historic cost of the asset, being amortised over the useful life of the asset. Provisions are discounted back to their current net present value.

Employee Benefits

The Group operates a number of defined benefit and contribution plans throughout the world, the assets of which are generally held in separate trustee administered funds. Such pension and post-retirement plans are generally funded by payments from employees and by the relevant Group companies, taking into account the recommendations of independent qualified actuaries. Group contributions to the defined contribution pension plans are charged to the Income Statement in the year to which they relate.

For defined benefit plans, accounting values are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the Income Statement so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries who carry out a full valuation of the plan every year. The pension obligation is measured as the present value of estimated future cash outflows using interest rates of government securities that have maturity terms approximating the terms of the related liability. All actuarial gains and losses outside specified limits ("the corridor") are spread forward over the average remaining service lives of employees. However, if any employment is terminated, the relevant actuarial gains and losses are immediately expensed as there is no longer any remaining service life over which these can be amortised. The corridor is defined as being the greater of 10% of the value of plan assets or 10% of the plan liabilities.

Executive Share Options

The costs of all employee-related share-based payments are charged to the Income Statement as personnel expenses over the vesting period. The synthetic option programmes 1999–2005 are hedged by Total Return Swaps ("TRS") which are settled with cash payments, allowing the Company to receive cash compensation to partially offset any change in the share price between the grant and settlement dates.

The fair value of employee services received in exchange for the grant of options is recognised as a cost, the total amount, to be expensed rateably over the vesting period, being determined by reference to the fair value of the options at period end. Estimates of the number of options that are expected to become exercisable are revised at each Balance Sheet date and the difference is recognised through the Income Statement with a corresponding adjustment to the liability shown in Other Long-term Operative Liabilities.

Restricted Equity

The components of restricted equity include the share premium account, the translation adjustment for foreign subsidiaries (CTA), Other Comprehensive Income (OCI) and the legal reserves required by law in certain countries where subsidiaries are incorporated.

Earnings per Share

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Group and held as treasury shares. Diluted earnings per share has been computed by applying the "treasury stock" method, under which earnings per share data is computed as if the warrants and options were exercised at the beginning of the period, or if later, on issue and as if the funds obtained thereby were used to purchase common stock at the average market price during the period. In addition to the weighted average number of shares outstanding, the denominator includes the incremental shares obtained through the assumed exercise of the warrants and options.

The assumption of exercise is not reflected in earnings per share when the exercise price of the warrants and options exceeds the average market price of the common stock during the period. The warrants and options have a dilutive effect only when the average market price of the common stock during the period exceeds the exercise price of the warrants and options.

Dividend

The dividend proposed by the Board is not deducted from distributable shareholders' equity until approved by the shareholders at the Annual General Meeting.

New Accounting Standards

In 2004 the IASB revised IAS 1, Presentation of Financial Statements, being effective on 1 January 2005 and under which Minority Interests are presented within the equity of the Group on the Balance Sheet. In the Income Statement, the standard requires the 'profit or loss attributable to minority interest' and 'profit or loss attributable to equity holders of the parent' each to be presented on the face of the Income Statement after the profit for the period. The minority interest in the result for the year is therefore no longer presented as an item of income or expense but instead as an allocation of profit or loss. Transactions between Minority shareholders and Group shareholders are now deemed to be transactions within equity and are thus shown in the Statement of Changes in Shareholder Equity and Note 20, Minority Interests.

In 2004 the IASB issued IFRS2, Share-Based Payments, which came into force on 1 January 2005. Under this standard, the cost of all payments made using shares or share options are to be fair valued and recognised in financial statements, though this only affects the synthetic Option Programme in Stora Enso. The fair value of employee services received in exchange for any grant of options is recognised as a cost over the vesting period, being the period between grant and exercise

Standards, Interpretations & Amendments to Published Standards not yet Effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 but which the Group has not early adopted:

- IAS 19 (Amendment), Employee Benefits (effective from 1 January 2006). This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. Adoption of this amendment will only impact on the format and extent of Group disclosures presented in the accounts and Stora Enso will apply this for annual periods beginning 1 January 2006.
- IAS 21 (Amendment), Net Investment in a Foreign Operation (effective from 1 January 2006). This enables certain third party currency monetary items to be treated as a part of the net investment in a foreign operation and do not necessarily need to be between a parent and a subsidiary as the creditor can also be a sister company. The Group does not consider that this amendment will have a significant impact on the classification and currency exchange treatment of loans and receivables.
- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006). The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit or loss. This amendment is not relevant to the Group's operations.
- IAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006). This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of financial instruments and will apply this for annual periods beginning on 1 January 2006.
- IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006). These amendments are not relevant to the Group's operations, as Stora Enso is not a first-time adopter and does not carry out exploration for and evaluation of mineral resources.
- IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. The Group will apply IFRS 7 and the amendment to IAS 1 for annual periods beginning 1 January 2007.
- IFRIC 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006). IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of IFRIC 4 on Group operations.
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006). IFRIC 5 is not relevant to the Group's operations.
- IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective from 1 December 2005). IFRIC 6 is not relevant to Group operations.

Stora Enso is exposed to a number of financial market risks that the Group is responsible for managing under policies approved by the Financial and Audit Committee of the Board of Directors. The overall objective is to have cost-effective funding in Group companies as well as to manage financial risks in order to decrease earnings volatility with the use of financial instruments. The main exposures for the Group are funding risk, interest rate risk, currency risk and commodity risk.

Funding Risk

Funding risk arises from the difficulty of obtaining finance for operations at a given point in time. In order to minimise the cost of refinancing the Group loan portfolio and to ensure that funding is obtainable, the Group Treasury must have committed credit facilities to cover planned funding needs, the current portion of long-term debt, commercial paper borrowings and other short-term loans. The average maturity of outstanding loans and committed credit facilities should be at least four years and not more than seven.

Interest Rate Risk

Fluctuations in interest rates affect the interest expense of the Group. As a result of the cyclical nature of the economy, the Group has an interest rate risk policy to synchronise interest costs with earnings over the business cycle by swapping long-term fixed interest rates to short-term floating interest rates. The Group's duration benchmark is 12 months and the Treasury has a deviation mandate of between 3 and 24 months.

Currency Risk

The Group operates internationally and is thus exposed to currency risk arising from exchange rate fluctuations. Transaction risk, being foreign currency-denominated sales and purchases together with foreign currency Balance Sheet items, as well as translation risk, being net investments in foreign subsidiaries, in aggregate comprise the foreign currency exchange risk of Stora Enso. The Group policy for transaction risk is to hedge a maximum 75% of the next 12 months net exposure in a specific currency. The policy relating to translation risk exposure is to minimise this risk by funding investments in the same currency as the net assets whenever this is possible and economically viable.

Commodity Risk

Group earnings are exposed to commodity price volatility. The Group has implemented a commodity risk management framework in the areas of fibre and energy procurement whereby subsidiaries are responsible for measuring their open commodity price risks and hedging these through the Group Treasury.

Credit Risk

Credit insurance has been obtained for customers in the main market areas of Western Europe, Canada and the United States. In other market areas, measures to reduce credit risks include letters of credit, prepayments and bank guarantees. The Group has also obtained export guarantees, covering both political and commercial risks, which are used in connection with individual customers outside the OECD area. Management considers that no significant concentration of credit risk with any individual customer, counterparty or geographical region exists for Stora Enso.

Supply Risk

Group manufacturing operations depend on obtaining adequate and timely supplies of raw materials, principally of wood, energy and chemicals. The result of operations could be adversely affected if the Group were unable to obtain adequate supplies of raw materials in a timely manner or if there were significant increases in the costs of raw materials.

Group companies may at times be substantially dependent on a limited number of key resource suppliers due to availability, locality, price, quality and other constraints; additionally, suppliers may sometimes extend lead times, limit supplies or increase prices due to capacity constraints or other factors. In an attempt to mitigate supply risk, the Group works closely with its key suppliers around the world and also produces some of its key resources in-house.

Market Risk of Total Return Swaps ("TRS")

Stora Enso utilises TRS to partially hedge exposures to changes in the share price of synthetic options granted under the Option Programmes for Management (see Note 29), which are settled with cash payments. While these TRS instruments allow the Group to partially stabilise future cash flows related to the settlement of outstanding synthetic options, they result in certain market risks relating to Group share price developments. Group TRS instruments do not qualify for hedge accounting, therefore periodic changes to their fair value are recorded in the Income Statement in financial items.

The preparation of consolidated financial statements in accordance with IFRS requires management to make subjective estimates and assumptions that affect the amounts reported. Estimates are based on historical experience and various other assumptions that are believed to be reasonable, though actual results and timing could differ from the estimates. Management believes that the accounting policies below represent those matters requiring the exercise of judgment where a different opinion could result in the greatest changes to reported results.

Fixed Assets
For material fixed assets in an acquisition, an external advisor is used to perform a fair valuation of the acquired fixed assets and to assist in determining their remaining useful lives. Management believes that the assigned values and useful lives, as well as the underlying assumptions, are reasonable, though different assumptions and assigned lives could have a significant impact on the reported amounts.

The carrying amounts of fixed assets are reviewed at each Balance Sheet date or whenever events or changes in circumstances indicate that the carrying amount of an asset may be impaired. Triggering events for impairment reviews include, among others:

- A permanent deterioration in the economic or political environment of customers or Group activities;
- Significant under-performance relative to expected historical or projected future performance; and
- Material changes in strategic orientations affecting Group business plans and previous investment policies.

If any such indications exist, the recoverable amount of an asset is estimated as the higher of the net selling price and the value in use, with an impairment charge being recognised whenever the carrying amount exceeds the recoverable amount.

Goodwill
Under IFRS, goodwill is tested by Cash Generating Unit ("CGU") or by group of CGUs at least on an annual basis and any impairment is measured using the discounted cash flow valuation method. This method uses future projections of cash flows from each of the reporting units in a CGU or group of CGUs and includes, among other estimates, projections of future product pricing, production levels, product costs, market supply and demand, projected maintenance capital expenditures and an assumption of the weighted average cost of capital. A pre-tax discount rate used for the net present value calculation of projected cash flows reflects the weighted average cost of capital.

Stora Enso expects to perform annual impairment tests in the third quarter of each year, though additional tests may be carried out if triggering events occur. The impairment test involves a comparison by CGU or group of CGUs of the fair value of the net operating assets, including goodwill, with their carrying amounts, the fair value being determined based on a discounted cash flow valuation. If a carrying amount exceeds the fair value, then assets within the CGU or group of CGUs are considered to be impaired, primarily the goodwill and then the fixed assets, until the carrying value equates to the fair value.

The Group has evaluated the most sensitive estimates which changes could have a material effect on the fair value of the assets or goodwill and therefore could lead to an impairment. These estimates are expected sales prices of the products, expected inflation rate of the product costs and discount rate. The Group performs sensitivity analysis on the most critical estimates.

Derivatives
As an international producer and seller of paper and forest products, Stora Enso is exposed to foreign exchange rate movements, thus, in accordance with Group policy, in 2005 a maximum of 75 percent of the upcoming 12 months net exposure in a specific currency was hedged. The Group policy for translation risk exposure aims to minimise this risk by funding investments in the same currency as the net assets, whenever possible and economically viable.

Stora Enso applies hedge accounting for cash flows related to external sales, however, derivative financial instruments that do not fulfil the criteria for hedge accounting are fair valued with the effect appearing in net financial items in the Income Statement.

Prices for paper and wood products are cyclical in nature and consequently earnings are exposed to commodity price volatility, thus Stora Enso hedges its end product markets. The Group has implemented a commodity risk management framework in the areas of fibre and energy procurement whereby subsidiaries are responsible for measuring their open commodity price risks and hedging these through the Group Treasury. All financial derivatives used in hedging Group exposure to commodity and energy price risk are accounted for under IAS 39 and, where possible, hedge accounting is applied, though where instruments do not fulfil the for hedge accounting criteria, they are fair valued with the effect appearing in net financial items in the Income Statement.

Income Taxes
Deferred income taxes are provided using the liability method, as measured with enacted tax rates, to reflect the net tax effects of all temporary differences between the financial reporting and tax bases of assets and liabilities. Principal temporary differences arise from depreciation on property, plant and equipment, fair valuation of net assets at acquisitions, fair valuation of available-for-sale investments and derivative financial instruments, intercompany inventory profits and tax losses carried forward which are recognised as assets to the extent that it is probable that future taxable profits will be available against which unused tax losses may be utilised.

Tax assets and liabilities are reviewed on a periodic basis and balances are adjusted as appropriate. Management considers that adequate provision has been made for future tax consequences based upon current facts, circumstances and tax law. However, should any tax positions be challenged and not prevail, different outcomes could result and have a significant impact on the amounts reported in the consolidated financial statements.

Post-Retirement Benefits

The group operates a number of defined contribution and defined benefit plans worldwide, the assets of which are generally held in trustee administered funds. Payments to defined contribution pension plans are charged to the Income Statement in the year to which they relate and no further liability arises. However, for defined benefit plans, accounting costs are assessed using the projected unit credit method under which the cost of providing pensions and other benefits is charged to the Income Statement so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries who carry out a full valuation of the plan each year; the full cost of the benefit is thus matched to the periods in which service is rendered.

The defined benefit obligation (“DBO”) is measured as the present value of estimated future cash outflows using interest rates of government securities that have maturity terms approximating the terms of the related liability. Pension assets are fair valued and the difference between that and the DBO represents actuarial gains and losses, which, to the extent that they are unrecognised on the Balance Sheet, are spread forward over the average remaining service lives of employees.

The determination of the Group pension obligation and expense is subject to the selection of certain assumptions used by actuaries in calculating such amounts, including, among others, the discount rate, the expected rate of return on plan assets, the annual rate of increase in future compensation levels and estimated lifespans. Actual results that differ from the initial estimates, together with the effect of any change in assumptions or other factors, are accumulated and amortised over future periods, subject to any curtailments, and therefore generally affect recognised expense and recorded obligation in future periods when the employees perform the service that is being remunerated.

Environmental Remediation Costs

Environmental expenditures resulting from the remediation of an existing condition caused by past operations and which do not contribute to current or future revenues, are expensed as incurred. Environmental liabilities are recorded, based on current interpretations of environmental laws and regulations, when it is probable that a present obligation has arisen and the amount of such liability can be reliably estimated. However, establishing the precise nature of any contingent liability for environmental liabilities is by its very nature extremely subjective, thus management can only make its best estimate based on the facts known at the time and by external advice where appropriate.

The Group evaluates the performance of its operating segments and allocates resources to them based on their operating performance, which is equivalent to the segment result. Segment sales include intersegment sales valued at arm's length prices

Stora Enso changed its organisational structure in 2005 so that its business segments are organised worldwide into global product divisions, these being the basis on which the Group reports its primary segment information. The activities of the reportable segments are:

Publication Paper
Publication Paper develops and manufactures both magazine paper and newsprint. It supplies uncoated and coated magazine paper grades to printers and publishers for use in magazines, catalogues, brochures and other printed advertising products. As for newsprint, it supplies standard and speciality grades to printers and publishers to be used in newspapers, supplements, advertising, directories and paperback books.

Fine Paper
Fine Paper develops, manufactures and supplies graphic coated and office uncoated fine paper grades for publishers and paper merchants. Graphic coated fine paper is used for advertising material, brochures, high quality books and magazines, whereas office uncoated fine paper products are copy and offset paper, envelopes, writing paper and continuous stationery paper.

Merchants
Merchants distribute paper to printers, merchants, offices and other agencies, acting as the link in the distribution of the Group's fine paper products to the graphic industry.

Packaging Boards
Packaging operations are split into business units for consumer board, corrugated packaging, industrial paper, speciality paper and cores and coreboard, all of which the Group develops, manufactures and supplies to industrial customers, the food industry in particular.

Wood Products
Wood Products develops, manufactures and supplies sawn goods used in the joinery, furniture and construction industry, including prefabricated houses; it also has an increasing amount of value added capacity for further processing of the basic sawn timber.

Wood Supply
Wood Supply procures and supplies timber to Group mills, sourcing this from both the Group's two forest Associates and from external parties.

Other
Segment Other consists of Market Services, being the Sales Network and Transport & Distribution, along with Energy and Head Office / Corporate functions.

Information on Stora Enso's reportable segments as at and for the years ended 31 December 2003, 2004 and 2005 is shown in the following tables; comparatives have been restated for the above organisational changes and the 2004 restatement of prior year results in respect of the Finnish Statutory Pension Scheme.

Sales by Segment

EUR million	2003 External	2003 Internal	2003 Total	2004 External	2004 Internal	2004 Total	2005 External	2005 Internal	2005 Total
	Year Ended 31 December								
Publication Paper	4 222.8	282.7	4 505.5	4 333.3	288.1	4 621.4	4 404.6	271.3	4 675.9
Fine Paper	2 532.1	228.6	2 760.7	2 445.5	223.3	2 668.8	2 385.2	305.1	2 690.3
Merchants	625.8	1.8	627.6	628.3	9.6	637.9	1 162.1	11.1	1 173.2
Packaging Boards	2 903.5	79.4	2 982.9	2 902.4	151.0	3 053.4	3 036.6	153.6	3 190.2
Wood Products	1 294.6	105.4	1 400.0	1 446.8	120.0	1 566.8	1 474.6	113.7	1 588.3
Wood Supply	492.6	1 581.7	2 074.3	549.7	1 931.8	2 481.5	603.9	1 898.0	2 501.9
Other	100.9	467.0	567.9	89.8	453.2	543.0	120.5	533.2	653.7
Elimination of internal sales	-	-2 746.6	-2 746.6	-	-3 177.0	-3 177.0	-	-3 286.0	-3 286.0
Group Total	**12 172.3**	**-**	**12 172.3**	**12 395.8**	**-**	**12 395.8**	**13 187.5**	**-**	**13 187.5**

Sales includes external service income of EUR 21.8 (EUR 19.3) million.

Segment Share of Operating Profit and Associated Companies

EUR million	Operating Profit 2003	Operating Profit 2004	Operating Profit 2005	Share of Results in Associated Companies 2003	Share of Results in Associated Companies 2004	Share of Results in Associated Companies 2005	Investment in Associated Companies 2003	Investment in Associated Companies 2004	Investment in Associated Companies 2005
	Year Ended 31 December								
Publication Paper	66.2	157.4	-8.3	-16.3	5.1	0.7	57.2	61.5	95.8
Fine Paper	100.4	93.2	21.4	-0.2	0.2	-0.1	3.3	0.2	307.9
Merchants	-8.9	9.9	-4.6	-	-	0.2	-	-	1.2
Packaging Boards	266.3	334.7	75.6	-	-0.5	-0.2	4.2	4.3	2.8
Wood Products	6.5	29.8	-56.3	-0.9	1.3	-4.0	7.6	8.1	0.8
Wood Supply	116.5	156.6	-15.3	13.7	22.5	78.0	83.0	249.6	297.6
Other	-75.6	-75.5	-106.4	-19.3	10.3	-7.4	163.7	244.4	13.8
Group Total	**471.4**	**706.1**	**-93.9**	**-23.0**	**38.9**	**67.2**	**319.0**	**568.1**	**719.9**

Fixed Assets, Capital Expenditure and Depreciation & Impairment by Segment

EUR million	Fixed Assets 2003	Fixed Assets 2004	Fixed Assets 2005	Capital Expenditure 2003	Capital Expenditure 2004	Capital Expenditure 2005	Depreciation/Impairment 2003	Depreciation/Impairment 2004	Depreciation/Impairment 2005
	Year Ended 31 December								
Publication Paper	4 094.2	4 009.0	4 175.0	591.6	492.4	602.9	467.1	458.3	565.9
Fine Paper	2 904.8	2 746.1	2 821.5	175.7	180.6	115.9	281.0	292.4	270.8
Merchants	66.5	76.3	338.8	25.6	3.2	6.7	8.1	8.5	15.5
Packaging Boards	2 700.4	2 754.0	2 642.4	214.3	179.2	237.6	279.4	281.9	407.1
Wood Products	685.4	674.8	637.9	141.9	68.1	44.5	74.4	78.2	113.8
Wood Supply	158.5	99.9	124.1	20.2	21.9	34.4	16.2	12.9	15.5
Other	337.7	290.7	353.0	78.9	29.7	87.6	74.2	39.8	39.1
Group Total	**10 947.5**	**10 650.8**	**11 092.7**	**1 248.2**	**975.1**	**1 129.6**	**1 200.4**	**1 172.0**	**1 427.7**

Goodwill by Segment (included in Fixed Assets above)

EUR million	Goodwill 2003	Goodwill 2004	Goodwill 2005	Acquisitions 2003	Acquisitions 2004	Acquisitions 2005	Amortisation/Impairment 2003	Amortisation/Impairment 2004	Amortisation/Impairment 2005
	Year Ended 31 December								
Publication Paper	162.3	138.1	139.3	-	-	-	36.3	23.6	-
Fine Paper	399.0	337.6	464.0	-	-	75.2	33.9	28.1	-
Merchants	9.1	13.8	52.7	-	6.8	38.8	2.2	2.2	-
Packaging Boards	159.0	143.4	151.7	2.5	0.1	-	19.2	15.1	8.0
Wood Products	173.2	155.0	154.1	71.1	-	-	20.0	21.2	-
Wood Supply	-	-	-	-	-	-	-	-	-
Other	-	-	-	0.2	-	-	4.5	-	-
Group Total	**902.6**	**787.9**	**961.8**	**73.8**	**6.9**	**114.0**	**116.1**	**90.2**	**8.0**

Assets and Liabilities by Segment

	As at 31 December					
	2003	2004	2005	2003	2004	2005
EUR million	Assets			Liabilities		
Publication Paper	5 256.0	5 335.3	5 571.3	919.9	861.3	981.0
Fine Paper	3 630.0	3 549.7	3 668.3	449.3	416.9	452.3
Merchants	237.9	279.0	855.9	78.5	86.3	190.2
Packaging Boards	3 530.2	3 716.9	3 619.9	518.1	476.8	500.2
Wood Products	1 018.9	1 038.0	1 011.7	208.1	195.4	189.1
Wood Supply	2 030.4	562.0	785.3	231.7	385.5	405.1
Other	2 238.7	1 931.0	2 582.6	7 538.1	5 817.3	7 638.2
Total	**17 942.1**	**16 411.9**	**18 095.0**	**9 943.7**	**8 239.5**	**10 356.1**

Operating Capital by Segment

	As at 31 December		
EUR million	2003	2004	2005
Publication Paper	4 336.1	4 474.0	4 590.3
Fine Paper	3 180.7	3 132.8	3 216.0
Merchants	159.5	192.7	665.7
Packaging Boards	3 012.1	3 240.1	3 119.7
Wood Products	811.9	842.5	822.6
Wood Supply	1 798.8	176.5	380.2
Other	228.3	90.9	583.4
Total	**13 527.4**	**12 149.4**	**13 377.9**

Reconciliation to Total Assets

	As at 31 December		
EUR million	2003	2004	2005
Operating Capital	13 527.4	12 149.5	13 377.9
Gross-up for operating liabilities	2 645.8	2 545.8	2 816.7
Interest-bearing receivables	1 255.3	976.2	999.8
Associate companies	319.0	568.1	719.9
Tax receivables	194.6	172.3	180.7
Total	**17 942.1**	**16 411.9**	**18 095.0**

Operating capital ("O" items) is designated thus on the Balance Sheet and represents the sum of fixed and biological assets, emission rights, unlisted shares, other non-current assets, inventories, short-term operative receivables and liabilities, provisions and other long-term operative liabilities.

Average Personnel

	Year Ended 31 December		
Segment	2003	2004	2005
Publication Paper	13 454	12 884	12 450
Fine Paper	8 274	7 758	7 637
Merchants	1 254	1 296	2 095
Packaging Boards	10 916	10 860	12 454
Wood Products	4 626	4 856	5 081
Wood Supply	2 618	3 157	3 415
Other	3 122	2 968	3 034
Total	**44 264**	**43 779**	**46 166**
Year end personnel	**42 814**	**45 307**	**46 664**

	Year Ended 31 December		
Location	2003	2004	2005
Baltic States	1 561	1 630	1 806
Finland	14 479	13 820	13 596
France	1 312	1 260	1 345
Germany	4 785	4 734	5 165
Poland	75	69	1 936
Russia	741	1 710	1 927
Sweden	9 068	8 848	8 696
Other Europe	5 192	5 280	5 445
Europe	**37 213**	**37 351**	**39 916**
Canada	849	775	664
China (incl. Hong Kong)	811	849	955
USA	5 182	4 644	4 454
Other	209	160	177
Total	**44 264**	**43 779**	**46 166**

External Sales by Destination and Origin

EUR million	2003	2004	2005	2003	2004	2005
	Year Ended 31 December					
	Sales By Destination			Sales By Origin		
Austria	222.0	238.6	298.0	324.8	390.4	361.5
Baltic States	89.3	135.5	165.8	280.1	310.7	321.7
Belgium	267.2	258.4	278.0	182.7	263.4	267.9
Czech Republic	118.9	111.1	136.2	136.5	143.8	161.5
Denmark	276.1	262.2	255.7	68.6	66.8	61.8
Finland	786.9	808.5	814.2	4 048.9	4 085.5	3 536.3
France	862.7	835.2	940.4	378.6	347.1	460.9
Germany	1 616.1	1 624.6	1 894.2	1 475.6	1 500.9	1 894.8
Italy	380.7	369.1	384.1	0.1	0.1	6.5
Netherlands	491.9	508.8	597.8	187.7	211.2	338.0
Poland	107.9	105.5	228.6	12.1	11.2	175.3
Portugal	64.9	83.2	65.7	124.9	131.1	134.2
Spain	499.4	488.8	483.1	118.0	114.0	111.5
Sweden	994.4	1 040.5	1 081.9	2 814.1	2 820.3	3 006.2
UK	979.3	963.8	860.4	23.4	24.4	34.5
Russia	130.7	151.8	193.2	59.8	118.3	167.9
Other Europe	654.9	671.9	777.4	59.7	55.7	104.6
Total Europe	**8 543.3**	**8 657.5**	**9 454.7**	**10 295.6**	**10 594.9**	**11 145.1**
Africa	146.8	149.9	138.8	-	-	-
Australia / New Zealand	122.9	124.3	120.7	20.2	5.6	9.2
Canada	143.7	127.5	137.3	285.6	275.5	292.2
China (incl. Hong Kong)	267.0	281.4	257.3	107.4	107.8	99.6
Japan	323.2	346.2	280.2	-	-	-
Other Asia	310.6	382.5	351.9	11.5	12.6	13.0
Middle East	185.5	201.4	193.6	-	-	-
USA	1 918.3	1 904.9	2 050.7	1 451.5	1 398.7	1 623.9
Latin America	126.0	162.9	170.8	-	-	-
Others	85.0	57.3	31.5	0.5	0.7	4.5
Total	**12 172.3**	**12 395.8**	**13 187.5**	**12 172.3**	**12 395.8**	**13 187.5**

Total Assets, Capital Employed and Equity by Location

EUR million	2003	2004	2005	2003	2004	2005	2003	2004	2005
	As at 31 December								
	Total Assets			Capital Employed			Shareholder's Equity		
Austria	238.5	235.1	197.6	175.6	165.1	144.4	134.2	141.1	91.0
Baltic States	302.0	296.4	303.7	255.5	275.4	291.5	154.7	150.2	157.0
Belgium	650.0	625.1	591.6	584.6	570.2	526.7	255.0	258.8	247.9
Czech Republic	117.8	121.7	153.9	105.8	110.6	141.8	114.4	128.0	142.0
Denmark	89.5	53.1	58.9	46.8	44.5	47.7	126.7	200.8	174.5
Finland	5 219.4	5 056.9	5 355.0	3 370.0	3 342.1	3 731.1	2 916.8	2 092.0	1 557.9
France	364.5	389.0	431.2	245.6	275.7	235.6	185.3	138.1	-18.9
Germany	1 750.7	1 778.6	2 031.6	893.4	878.2	995.8	642.5	648.6	654.0
Netherlands	121.1	181.7	196.1	87.6	130.9	124.9	272.5	195.7	64.7
Poland	9.4	248.9	266.6	5.5	162.1	189.3	-1.1	135.9	147.1
Portugal	227.5	216.8	226.3	214.8	202.0	201.0	320.7	243.8	240.9
Spain	127.1	121.1	121.4	91.1	84.2	80.2	70.4	73.7	77.0
Sweden	4 328.9	3 270.0	3 606.4	2 582.4	1 571.1	2 154.8	1 396.3	1 865.7	1 982.4
Russia	96.6	127.8	182.9	82.0	119.3	163.1	25.7	33.5	55.3
Other Europe	74.0	77.2	228.3	36.5	12.3	121.5	62.5	73.1	135.1
Total Europe	**13 717.0**	**12 799.4**	**13 951.5**	**8 777.2**	**7 943.7**	**9 149.4**	**6 676.6**	**6 379.0**	**5 707.9**
Canada	488.1	484.2	547.1	491.7	475.1	367.1	472.2	445.6	428.4
China (incl. Hong Kong)	180.8	174.4	259.4	157.3	147.8	201.0	28.1	39.2	100.3
USA	3 385.1	2 725.2	2 908.9	2 143.6	2 079.2	2 319.2	665.4	984.5	1 029.7
Latin America	105.6	191.1	372.7	0.3	0.3	49.1	105.3	190.8	371.9
Other	65.5	37.6	55.4	28.3	9.6	17.2	-9.5	-2.8	7.1
Total	**17 942.1**	**16 411.9**	**18 095.0**	**11 598.4**	**10 655.7**	**12 103.0**	**7 938.1**	**8 036.3**	**7 645.3**

Total capital employed represents operating capital less net tax liabilities.

Fixed Assets, Capital Expenditure and Depreciation & Impairment by Location

	Year Ended 31 December								
	2003	2004	2005	2003	2004	2005	2003	2004	2005
EUR million	Fixed Assets			Capital Expenditure			Depreciation/Impairment		
Austria	147.7	139.9	120.2	18.7	13.3	8.1	18.2	16.6	27.4
Baltic States	207.2	208.2	204.4	39.7	28.9	16.1	22.0	24.8	19.2
Belgium (1)	557.1	506.0	486.0	209.7	-11.7	12.0	29.5	39.8	36.3
Czech Republic	97.2	100.2	117.1	2.8	10.5	4.8	13.0	13.0	6.2
Finland	3 224.9	3 086.3	2 928.8	371.5	239.3	201.9	367.0	369.2	411.5
France	187.8	199.6	201.0	36.3	37.7	49.9	34.9	24.0	56.2
Germany	1 154.6	1 177.9	1 283.7	126.8	187.0	49.9	155.2	163.1	143.9
Netherlands	55.7	80.6	75.5	4.3	5.2	3.1	9.7	9.9	10.8
Poland	2.2	146.5	171.5	-	0.1	32.5	0.2	0.9	16.9
Portugal	133.3	127.3	127.1	5.8	4.5	9.8	11.9	9.9	9.9
Spain	73.4	69.0	68.5	2.5	2.4	6.5	5.1	6.7	6.9
Sweden	1 965.0	1 959.8	2 234.3	197.3	283.8	554.9	220.6	207.9	216.4
Russia	63.9	82.2	119.5	45.5	12.3	30.1	3.2	5.4	9.0
Other Europe	54.3	49.2	125.1	28.4	2.9	17.1	9.0	9.4	15.8
Total Europe	**7 924.3**	**7 932.7**	**8 262.7**	**1 089.3**	**816.2**	**996.7**	**899.5**	**900.6**	**986.4**
Canada (1)	422.5	404.4	344.9	45.3	29.4	-15.5	45.0	28.9	110.6
China (incl. Hong Kong)	138.1	121.5	158.5	1.3	3.7	22.6	13.1	11.1	8.9
USA	2 449.8	2 185.1	2 272.4	109.0	123.8	83.2	240.4	229.9	320.6
Latin America	0.3	0.4	46.9	0.2	0.2	42.2	0.1	0.1	0.1
Other	12.5	6.7	7.3	3.1	1.8	0.4	2.3	1.4	1.1
Total	**10 947.5**	**10 650.8**	**11 092.7**	**1 248.2**	**975.1**	**1 129.6**	**1 200.4**	**1 172.0**	**1 427.7**

(1) Negative capital expenditure is as a result of grant receipts.

Goodwill by Location (included in Fixed Assets above)

	Year ended 31 December								
	2003	2004	2005	2003	2004	2005	2003	2004	2005
EUR million	Goodwill			Acquisitions			Amortisation/Impairment		
Austria	49.3	43.0	43.0	-	-	-	6.4	6.3	-
Baltic States	65.2	57.8	54.2	71.1	-	-	6.0	7.0	-
Belgium	14.0	12.0	12.0	-	-	-	4.2	2.4	-
Czech Republic	58.7	54.2	56.9	-	-	-	7.7	7.9	-
Finland	5.0	4.0	59.0	-	0.1	55.0	4.5	1.1	-
Germany	174.0	146.0	185.0	2.1	-	39.0	21.0	27.6	-
Sweden	15.9	13.9	33.6	-	-	20.0	15.1	2.1	-
Other Europe	4.1	9.8	9.7	0.6	6.8	-	12.9	1.2	-
Total Europe	**386.2**	**340.7**	**453.4**	**73.8**	**6.9**	**114.0**	**77.8**	**55.6**	-
China (incl. Hong Kong)	23.9	17.7	21.0	-	-	-	5.2	4.9	-
USA	492.5	429.5	487.4	-	-	-	33.1	29.7	8.0
Total	**902.6**	**787.9**	**961.8**	**73.8**	**6.9**	**114.0**	**116.1**	**90.2**	**8.0**

Material acquisitions in recent years consisted of the Schneidersöhne Group in 2005 in Germany, the Intercell Group in 2004 in Poland and the Sylvester Group in the Baltic States in 2003. The only material disposal in this period was the 2004 sale of 56.7% of the shares in the group's Swedish forest-owning company, Bergvik Skog AB.

Acquisitions

In 2005 Stora Enso spent EUR 323.9 (EUR 176.4) million on share acquisitions, of which EUR 93.3 (EUR 0.0) million related to buying out Minority Interests. EUR 235.6 million was therefore spent on acquiring new businesses, the biggest acquisition being the German Schneidersöhne Group, accounting for EUR 202.7 million.

The effect of acquisitions on the 2005 sales on a like-for-like basis is EUR 640.0 million, being:

- Schneidersöhne Group (Merchants) external sales: Sept to Dec, EUR 354.6 million.
- Papeteries de France SA (Merchants): EUR 105.3 million.
- Scaldia Papier BV (Merchants): extra 8 months sales in 2005, EUR 66.9 million.
- Other acquisitions made in 2005 (mainly Wood Products): EUR 35.1 million.
- Stora Enso Poland SA (Intercell, Packaging Boards): full year, EUR 161.1 million.
- Lost external sales from existing units (eliminations): EUR -83.0 million.

The effect on sales for a full year in respect of the 2005 acquisitions and the Intercell Group, whose results were not consolidated in 2004 as it was acquired in late December, would be EUR 1.4 billion net of internal eliminations.

The effect on the operating profit of the above additional turnover was a loss of EUR 15.3 million, financial items coming to EUR -0.3 million and tax being a credit of EUR 4.8 million, giving a net loss of EUR 10.8 million. It is however to be expected that in the year of acquisition, there are losses due to the expensing of the stock fair values, being EUR 7.7 million, and other costs in incorporating the new operations into the Group.

Acquisitions by Segment

	As at 31 December		
EUR million	2003	2004	2005
Publication Paper	-	-	2.2
Fine Paper	-	5.2	83.7
Merchants	-	31.1	140.7
Packaging Boards	5.5	131.8	27.0
Wood Products	118.6	-	69.2
Wood Supply	4.1	12.2	6.1
Total	**128.2**	**180.3**	**328.9**

Acquisitions by Country

	As at 31 December		
EUR million	2003	2004	2005
Baltic States	122.7	-	58.4
Poland	-	131.8	1.5
Germany	2.1	-	64.2
Other EU	4.1	36.3	129.7
Other Europe, excl. EU	-	12.2	65.3
Other	-	-	9.8
Total Assets	**128.2**	**180.3**	**328.9**

On 31 August Stora Enso finalised its acquisition of 100% of the German-based paper merchant group Schneidersöhne, following approval by regulatory and competition authorities. The all-cash acquisition valued the business at EUR 441.6 million, being the equity purchase price of EUR 202.7 million and debt of EUR 238.9 million. Schneidersöhne was consolidated as part of Stora Enso's merchant business, Papyrus, from September.

Schneidersöhne was the second largest paper merchant in Germany by sales volume and the fifth largest in Europe. It had operations in 11 countries, the biggest markets being Germany and Switzerland. At the year end it employed 1 895 staff and had net sales of EUR 1 073.4 million for the year, of which EUR 354.6 million arose after the acquisition.

The operating result for the four months post-acquisition showed a loss of EUR 9.2 million, though this is to be expected immediately after an acquisition, not least as the fair value allocation of EUR 7.2 million for stock had to be expensed. The financial expense for the period was EUR 2.0 million and, after an allowance for tax of EUR 4.4 million, left a net loss for the period of EUR 6.8 million.

The acquisition was accounted for using the purchase method under which Stora Enso allocated the total purchase price to assets and liabilities based on their fair values. The purchase price of EUR 202.7 million resulted in the allocation of EUR 82.9 million and EUR 35.8 million to intangible and tangible fixed assets respectively, EUR 7.1 million to other assets and liabilities, EUR 40.7 million for tax and goodwill of EUR 114.0 million.

Fair values of intangibles were calculated according to accepted valuation methodologies and have been based on independent appraisal. The fair value determination of the customer contracts and related customer relationships has been derived from customer turnover rates and cash flow for customers remaining estimated life time. Company and product trade marks were recognised as intangible assets separate from goodwill, their values being derived from discounted cash flow analysis using the relief from royalty method. Goodwill represents estimated synergies to be achieved, both within Merchants, EUR 39.0 million, as a result of better efficiency in logistical flows, merging of overlapping operations and better purchase conditions from external suppliers, and in existing Stora Enso units expected to benefit through increased sales volumes, EUR 75.0 million.

Details of the Schneidersöhne acquisition are shown in the table below, along with figures for the entire Group; no other single acquisition was deemed material. Although the table shows adjustments made to book values as part of the fair valuation process, other adjustments were made to ensure that the opening book values were IAS-compliant before the fair valuations took place. The Schneidersöhne figures, however, remain provisional as further information may become available within the 12 month period post-acquisition which may result in changes in the net assets acquired or fair value allocations.

Acquisitions in 2005

EUR million	Total Group Acquisitions: Total Value	Total Group Acquisitions: Allocated Fair Values	Total Group Acquisitions: Acquired Book Value	Schneidersöhne Group: Total Value	Schneidersöhne Group: Allocated Fair Values	Schneidersöhne Group: Acquired Book Value
Tangible fixed assets	187.9	41.7	146.2	145.0	35.8	109.2
Intangible fixed assets	86.4	84.4	2.0	85.1	83.1	2.0
Goodwill	114.0	114.0	-	114.0	114.0	-
Total Fixed Assets	388.3	240.1	148.2	344.1	232.9	111.2
Associated Companies	1.2	-	1.2	1.2	-	1.2
Operative receivables: Non-current	24.2	-	24.2	24.1	-	24.1
Operative receivables: Current	230.8	-0.3	231.1	165.8	-	165.8
Inventories	94.9	7.7	87.2	78.5	7.2	71.3
Cash	10.3	-	10.3	0.9	-	0.9
Tax assets	5.6	1.7	3.9	5.5	1.7	3.8
Total Assets Acquired	**755.3**	**249.2**	**506.1**	**620.1**	**241.8**	**378.3**
Group shareholder equity acquired	328.9	203.3	125.6	202.7	199.7	3.0
Minority Interests	-93.3	0.9	-94.2	-	-	-
Net Equity Acquired	**235.6**	**204.2**	**31.4**	**202.7**	**199.7**	**3.0**
Operative Liabilities: Non-current	44.0	1.4	42.6	41.9	-	41.9
Operative Liabilities: Current	135.7	-	135.7	74.7	-	74.7
Debt: Non-current	103.0	-	103.0	87.0	-	87.0
Debt: Current	171.6	-0.4	172.0	152.8	-0.3	153.1
Tax Liabilities	65.4	44.0	21.4	61.0	42.4	18.6
Total Equity & Liabilities Acquired	**755.3**	**249.2**	**506.1**	**620.1**	**241.8**	**378.3**

Other acquisitions in 2005 included:

- In April the Group completed its acquisition of Papeteries de France SA from International Paper Corp for EUR 12.4 million as part of the Group strategy to develop its Papyrus merchant business. The business had full year sales of EUR 149.2 million in 2005, of which EUR 105.3 million arose post-acquisition, and employed 202 people at the year end. The operating loss amounted to EUR 0.9 million, with a loss after financial items and tax of EUR 1.2 million, though this is to be expected in any year of acquisition. There was no goodwill.
- In July Stora Enso Timber AG in Austria bought out its 51% partner in its former Associate Holzwerke Wimmer GmbH in Germany and its subsidiary at Zdirec in the Czech Republic. The Wimmer companies specialised in the further processing of Group products. The purchase price amounted to EUR 5.2 million and, together with the existing book value of EUR 5.0 million for the 49% already reported as an Associate, this gave an acquisition value of EUR 10.2 million, equivalent to the net assets acquired. The Wimmer companies had an external turnover in 2005 of EUR 69.0 million, of which EUR 30.2 million arose subsequent to the acquisition date, and they employed 160 staff at the year end. The companies had an operating loss of EUR 8.2 million for the six months period when they were consolidated, though EUR 6.3 million of this represented an impairment of fixed assets at the German mill when the assets were tested later in the year after their July fair valuation; the net loss after financial items and tax amounted to EUR 6.9 million. There was no goodwill on the acquisition as recent losses had reduced the purchase price calculation, though the acquisition accounting must still be considered provisional.
- In December Wood Supply acquired another subsidiary in Russia in a deal worth EUR 6.1 million, the rationale being to enhance Group fibre supply. The Balance Sheet is consolidated at the year end, though not any results; however, this acquisition will not affect Group turnover as the supplies will be internal. There was no goodwill, though the acquisition accounting is still provisional, and at the year end the company employed 510 staff.
- There was one other small acquisition in Belgium of EUR 2.2 million which was intended to ensure fibre supply to Langerbrugge Mill.

The details of the buy-outs of Minority Interests are:

- Stora Enso Timber Oy exercised its option to buy-out the 34% Minority in its Baltic subsidiary, Stora Enso Timber AS. In 2003 Stora Enso had completed the acquisition of AS Sylvester, Estonia's largest sawmilling and wood procurement company, for EUR 122.7 million, of which EUR 72.0 million represented goodwill; Sylvester sawmilling operations then became Stora Enso Timber AS. The original purchase agreement included an option to

buy out the remaining shares for a consideration to be determined by performance targets and it is this option that has now been exercised with effect from March 2005. The value of the Minority at 31 December 2004 amounted to EUR 27.4 million, thus with the purchase consideration coming to EUR 55.3 million, a charge of EUR 27.9 million was made against Retained Earnings (see Note 20).
- Stora Enso Timber AS itself had a small Minority in the ownership of its Imavere sawmill and this too was bought out during the year; Minorities in timber businesses in Australia and Germany were also extinguished. The total price was EUR 3.9 million and this resulted in a charge against retained earnings of EUR 1.5 million.
- Stora Enso acquired UPM Kymmene Oy's 29% minority shareholding in Corenso United Oy Ltd following approval by the regulatory authorities. Corenso is a leading producer of coreboard and cores and tubes for industrial use and has four coreboard mills and 14 core factories in Europe, China and North America, with associated companies in Canada and Spain. The cost of the share acquisition totaled EUR 22.8 million with a charge against Retained Earnings of EUR 7.2 million above the equity accounting value of the Minority at 31 December 2005 of EUR 15.6 million. Other Minorities however still remain within certain Corenso subsidiaries.
- In July 2005 Stora Enso China Holdings AB increased its ownership of Suzhou Mill from 80.9% to 96.5% by acquiring the 15.6% holding of the Suzhou Handicraft Co-operative in Suzhou Papyrus Paper Company Ltd. The acquisition cost EUR 8.5 million with a charge to Retained Earnings of EUR 7.4 million. The remaining Minority of 3.5% is owned by the Suzhou New District Economic Development Group and according to the deal, Stora Enso has the option to purchase this in the future. Stora Enso acquired its initial shareholding in Suzhou Mill in 1998 to start producing coated fine paper in China and in 2004 decided to modernise the mill to increase the production capacity. Stora Enso's increased ownership facilitates this expansion of the mill and at the same time the Group made an equity injection of EUR 39.9 million to finance it.
- The Group made certain other Minority payments at a cost of EUR 4.6 million which resulted in a gain to retained earnings of EUR 1.0 million.

In December 2004 Stora Enso closed its acquisition of 65.5% of the Polish packaging producer Intercell S.A. from private shareholders and the International Finance Corporation, the acquisition price being EUR 131.8 million. The fair value of the net assets acquired amounted to EUR 201.2 million and although there was no goodwill, intangibles amounted to EUR 16.7 million. The acquisition is part of the Group strategy of expanding its packaging board operations and will strengthen its presence in the fast growing Polish market. Intercell is one of Poland's biggest corrugated packaging companies, with integrated operations from waste paper collection to corrugated packaging production, having three corrugated packaging plants in Poland, as well as one sack factory in Poland and one in Serbia. In 2005 its external sales were EUR 161.1 million, its operating profit EUR 5.1 million and its net profit after financials and tax, EUR 5.2 million; at 31 December 2005 it had 1 869 employees.

In September 2004 Stora Enso completed its 100% acquisition of the Dutch paper merchant Scaldia Papier BV from International Paper Corp, the acquisition accounting being completed in 2005 with an additional payment of EUR 1.0 million to give a total purchase price of EUR 32.1 million, of which goodwill came to EUR 6.6 million. Scaldia had net sales in 2005 of EUR 101.8 million and at 31 December employed 150 people. In 2005 its operating loss was EUR 1.4 million, to be expected in the first year post-acquisition, with a net loss after financials and tax of EUR 0.9 million.

Stora Enso also made various small acquisitions in Russia in 2004 as part of its Wood Supply programme to reduce supply risk by securing sources of fibre; EUR 12.2 million was invested in Russian acquisitions during the year, the fair value of the acquired net assets approximating their cost. As a result of these acquisitions, fibre procurement from Wood Supply Russia increased substantially in 2004, employees increasing from 90 at 31 December 2003 to 1 674 in 2004 and 1 851 in 2005.

Acquisition of Group Companies

	Year Ended 31 December		
EUR million	**2003**	**2004**	**2005**
Acquired Net Assets			
Cash and cash equivalents	3.0	45.9	10.3
Other operating working capital	31.2	44.0	171.4
Tangible fixed assets	132.2	160.8	187.9
Intangible fixed assets	0.4	22.5	86.4
Tax liabilities	-0.2	-19.2	-59.8
Net interest-bearing liabilities	-88.4	-10.7	-274.6
Minority interests	-23.8	-69.9	93.3
Fair Value of Net Assets in Acquired Companies	**54.4**	**173.4**	**214.9**
Goodwill	73.8	6.9	114.0
Total Purchase Consideration	**128.2**	**180.3**	**328.9**

Disposals

In 2005 there was only a single minor disposal and nothing in 2003, though in 2004 the Group sold 56.7% of its Swedish forestry-owning company, Bergvik Skog AB.

Stora Enso launched its forest restructuring programme in 2002 and this culminated in March 2004 with the divestment of the Group's Swedish forest interests, which had a book value of EUR 1 598.0 million at 31 December 2003. Although the capital gain on disposal amounted to EUR 113.9 million, the sale also triggered the release of deferred tax provisions of a further EUR 240.5 million that had been provided in the event of an asset sale as opposed to the company divestment that ultimately occurred. Stora Enso's on-going stake in Bergvik Skog AB, amounting to SEK 1 515 (EUR 167.9) million, is now accounted for as an Associate (see Note 14). An unrealised gain of EUR 73.5 million in excess of the reported profit was also generated on this transaction and is shown in Balance Sheet liabilities (see Note 24).

In October 2004 Stora Enso divested its majority shareholding in PT Finnantara Intiga, its Indonesian acacia plantation company. The book value of the plantation at sale was EUR 21.8 million and the disposal resulted in a small overall profit of EUR 2.4 million

Disposal of Group Companies

	Year Ended 31 December		
EUR million	**2003**	**2004**	**2005**
Net Assets Sold			
Cash and cash equivalents	-	29.5	-
Other operating working capital	-	62.2	-
Fixed assets	-	94.1	-
Biological assets	-	1 541.2	-
Interest-bearing assets less cash and cash equivalents	-	23.1	1.6
Tax liabilities	-	-222.9	-
Interest-bearing liabilities	-	-1 518.8	-
Net Assets in Divested Companies	-	**8.4**	**1.6**
Income Statement capital gain (goodwill realised)	-	113.0	-
Provision for unrealised gain	-	76.5	-
Total Disposal Consideration Received in Cash	-	**197.9**	**1.6**

Following the Kyoto agreement, the European Union has issued carbon dioxide (“CO_2”) emission rights to participating entities to discharge a specified level of emissions. Participants in the scheme have received a certain amount of emission rights for free and they are also able to buy and sell these rights in a market. If their emissions exceed their rights, they must purchase more allowances on the market, though if they emit less, they will be able to sell their excess allowances on the market. The Group has expensed EUR 36.4 million, under Materials & Services, on account of actual emissions, thus ensuring the Income Statement correctly reflects the cost of assets used in production. This is offset under Other Operating Income by an equivalent credit from the original grant of those rights, hence the Income Statement is neutral in this respect. Stora Enso emissions in 2005 were less than the allowances granted, mainly due to disruption caused by industrial action in Finland, sale proceeds from surplus rights coming to EUR 1.6 million

The Group also generates other income from its environmentally friendly power-generation in Sweden where it uses renewable resources and is thus entitled to Green Certificates for onward sale to generators that consume non-renewable resources. The income from this amounted to EUR 21.2 (EUR 34.0) million.

In 2005 and 2003 there were no material gains on the disposal of long-term investments and fixed assets. However, in 2004 the Group divested its Swedish forest holdings company, Bergvik Skog AB (see Note 5) and generated a capital gain of SEK 978 (EUR 107.3) million on the fixed assets therein. Cumulative Translation Adjustments (CTA) relating to divested companies amounted to EUR 11.7 million, of which EUR 6.5 million related to Bergvik Skog and EUR 5.2 million to the Group’s former Indonesian plantation business.

Other Operating Income & Expense

	Year Ended 31 December		
EUR million	**2003**	**2004**	**2005**
Other Operating Income			
Emission rights	na	na	38.0
Sale of Green Certificates	15.7	34.0	21.2
Capital gain on sale of fixed assets	12.4	113.0	2.1
CTA on disposals, net of hedging	-	11.7	-
Gain on sale of long-term investments	2.6	1.4	1.0
Insurance compensation	9.7	4.8	3.3
Rent	8.3	8.4	8.0
Subsidies	6.3	7.4	6.5
Total	**55.0**	**180.7**	**80.1**
Other Operating Expenses include			
Research and Development	88.8	82.2	88.0
Rents paid	93.2	93.4	96.0
Loss on sale of long-term investments	4.5	0.3	7.9
CTA on disposals, net of hedging	-	-	0.2
Materials and Services include			
Actual emissions	-	-	36.4

Aggregate fees for professional services rendered to the Group by the principal independent auditor, PricewaterhouseCoopers, are shown below. Audit fees relate to the audit of the annual financial statements or ancillary services normally provided in connection with statutory and regulatory filings. Audit-related fees are incurred for assurance and associated services that are reasonably related to the performance of the audit or review of financial statements. Tax fees are incurred on account of tax compliance, advice and planning.

Principal Independent Auditor’s Fees & Services

	Year Ended 31 December		
EUR million	**2003**	**2004**	**2005**
Audit fees	2.5	2.7	3.6
Audit-related fees	1.0	1.0	0.8
Tax fees	0.5	1.1	1.0
Other fees	0.4	0.1	0.2
Total	**4.4**	**4.9**	**5.6**

Personnel Expenses

EUR million	Year Ended 31 December 2003	2004	2005
Wages and salaries	1 661.7	1 594.8	1 637.3
Board Remuneration (see below)	0.6	0.7	0.7
Pensions (see below)	345.1	52.3	274.6
Share-based remuneration (Note 29)	-	-	9.7
Other statutory employer costs	272.2	271.9	289.4
Other voluntary costs	18.0	17.6	4.9
Total	**2 297.6**	**1 937.3**	**2 216.6**

Pensions

EUR million	Year Ended 31 December 2003	2004	2005
Defined benefit plans	104.5	-116.6	45.3
Defined contribution plans	209.2	201.8	197.0
Other post-employment benefits	31.4	-32.9	32.3
Total Pension Costs	**345.1**	**52.3**	**274.6**

As a result of the 2004 change in rules for calculating disability pension liabilities in Finland, there was a credit to the Income Statement relating to defined benefit plans in 2005 and 2004 of EUR 4.4 million and EUR 179.9 million respectively; full details of pension costs are shown in Note 21.

Board & Board Committee Remuneration

EUR thousand	Year Ended 31 December 2003	2004	2005
Board Members at 31 December 2005			
Claes Dahlbäck, Chairman	135.0	141.0	145.0
Ilkka Niemi, Vice Chairman	60.0	69.7	89.5
Gunnar Brock	-	-	45.0
Lee A. Chaden	-	45.0	67.0
Harald Einsmann	60.0	64.5	63.7
Jukka Härmälä, CEO	-	-	-
Birgitta Kantola	-	-	50.3
Jan Sjöqvist	60.0	67.5	70.0
Matti Vuoria	-	-	47.3
Marcus Wallenberg	60.0	65.2	62.5
Former Board Members			
Krister Ahlström	85.0	91.0	23.3
Björn Hägglund	-	-	-
Barbara Kux	45.0	65.3	16.7
Paavo Pitkänen	60.0	65.3	16.7
George W. Mead	60.0	15.0	-
Josef Ackermann	15.0	-	-
Total Remuneration as Directors	**640.0**	**689.5**	**697.0**

Executive Management Group ("EMG") Remuneration

EMG annual salaries are normally reviewed once a year with new salaries valid from 1 March. Basic annual salaries totalled EUR 4.7 (EUR 4.7) million, of which EUR 1.0 (EUR 1.1) million related to the CEO as detailed below.

Executive Remuneration: CEO

EUR thousand	Year Ended 31 December 2003	2004	2005
Remuneration			
Annual salary	1 063.1	1 102.8	976.4
Benefits	114.8	64.1	119.8
Bonus (variable salary)	197.1	253.9	164.4
	1 375.0	**1 420.8**	**1 260.6**
Pension Costs			
Finnish TEL scheme	174.1	161.9	104.4
Stora Enso voluntary plan	-	332.9	267.3
International pension plan	-	-	393.4
	174.1	**494.8**	**765.1**
Total Compensation	**1 549.1**	**1 915.6**	**2 025.7**

If the CEO had not participated in the International Pension Plan described below, the corresponding figures for 2005 would have been: Annual salary EUR 1 165.4, Bonus EUR 368.8, Benefits EUR 119.8; Total EUR 1 654.0.

Chief Executive Officer: Jukka Härmälä

The base salary for the CEO was increased by 4% in local currency in 2005. In addition to his basic salary, the CEO is also entitled to a short-term incentive plan, decided on by the Board each year, giving a maximum 50% of annual fixed salary. The plan for 2004 was 20% related to Stora Enso's Return on Capital Employed ("ROCE"), 20% to the North America Profit Enhancement Plan and 60% to personal key targets. The plan for 2005, to be paid out in 2006, was 25% related to Stora Enso's Return on Capital Employed ("ROCE"), 25% directed at the profit improvement plan for Stora Enso and the other 50% being related to personal key targets.

The CEO has the right to retire at sixty with his pension, arising from the compulsory Finnish TEL scheme and a Stora Enso voluntary plan, amounting to 66% of the average of the last four years Finnish remuneration preceding retirement. Pensionable remuneration in 2005 was EUR 1 002 345 (EUR 963 634), thus the cost to the Company of the compulsory TEL plan was EUR 104 441 (EUR 161 890). A contribution of EUR 267 312 (EUR 332 935) was needed for the Stora Enso voluntary plan, this funding being required following a review of the policy and the accumulated fund; it does not represent any change in the benefits themselves.

During 2005 the CEO joined a defined contribution International Pension Plan that was established with due consideration to best current practice in the UK for internationally mobile executives and with acceptance from the UK Inland Revenue. Accordingly, the terms and conditions of his employment were amended to allow Stora Enso to make contributions into the international pension plan, though the overall level of his remuneration remained unchanged. In the year to 31 December 2005, Stora Enso made contributions totalling EUR 393 449 into the International Pension Plan on Mr Härmälä's behalf.

Executive Management Group

EMG members have short-term incentive plans up to a maximum 50% of annual fixed salary, with up to 50% tied to the Group's Return on Capital Employed; the payout in 2005, relating to 2004, was EUR 628 137 (EUR 636 582). Benefits amounting to EUR 212 400 (EUR 347 544) were provided, though additional sums relating to the foreign assignments of six (five) members were paid at a cost of EUR 268 070 (EUR 282 791). Under the new accounting rules from 1 January 2005 for share-based payments, the non-cash charge to the Group for their executive options and restricted share awards amounted to EUR 826 912.

EMG members may retire at sixty with pensions consistent with local practices within their respective home countries; pension costs totalled EUR 1 740 024 (EUR 1 611 431).

Contracts of employment for the CEO and other EMG members provide for notice of six months prior to termination with compensation being twelve months basic salary and a further optional twelve months salary depending on employment. They are also entitled to a certain number of shares through options / synthetic options, details of which are shown in Note 29.

Note 8 Net Financial Items

EUR million	Year Ended 31 December 2003	2004	2005
Financial Expense	-549.2	-247.0	-364.6
Financial Income	311.5	141.0	213.0
Net Financial Expense	**-237.7**	**-106.0**	**-151.6**
Represented By			
Interest Expense			
Bank borrowings	-188.9	-149.3	-181.5
Finance leases	-30.2	-17.3	-14.4
Interest capitalised	5.2	2.5	7.1
Interest income	27.8	22.7	23.8
Dividend income	5.8	17.1	4.5
Exchange gains and losses			
Currency derivatives	236.0	-59.2	-131.7
Borrowings and deposits	-223.5	58.1	146.1
Other financial income			
Fair value hedges	1.5	13.8	0.8
Other fair value changes	20.8	18.7	10.0
Others	14.4	8.1	20.7
Other financial expense			
Fair value hedges	-11.3	-0.2	-
Other fair value changes	-11.2	-0.2	-18.9
Others	-84.1	-20.8	-18.1
Total	**-237.7**	**-106.0**	**-151.6**

Gains and losses on derivative financial instruments are shown in Note 25.

In 2003 a provision of EUR 53.9 (USD 61.1) million for additional leasing costs arising from the early termination of finance leases was included in Other Financial Expense. Stora Enso North America Inc had terminated a portfolio of 1996 UK finance leases which had been due to expire in 2011, but as a consequence of changes in the interpretation of UK leasing tax rules, early termination of the leases became appropriate. The transaction was closed on 2 March 2004 and the remaining provision of USD 3.5 (EUR 2.8) million was credited back to the Income Statement.

Aggregate foreign exchange gains and losses included in the Consolidated Income Statement are:

EUR million	Year Ended 31 December 2003	2004	2005
Sales	-47.9	-19.2	55.8
Costs and expenses	5.2	3.2	-6.1
Net financial items	12.5	-1.1	14.4
Total	**-30.2**	**-17.1**	**64.1**

Profit before Tax and Minority Interests

EUR million	2003	2004	2005
	Year Ended 31 December		
Finnish companies	174.6	310.3	-180.7
Swedish companies	329.5	337.2	271.3
German companies	25.8	-6.3	28.4
Other companies	-319.2	-2.2	-297.3
Total	**210.7**	**639.0**	**-178.3**

Income Tax Expense

EUR million	2003	2004	2005
	Year Ended 31 December		
Current Tax Expense			
Finnish companies	5.2	13.4	57.8
Swedish companies	77.5	32.0	152.1
German companies	1.1	13.9	30.7
Other companies	31.4	41.7	85.5
Current Tax Expense shown in Tax Reconciliation	**115.2**	**101.0**	**326.1**
Change in Deferred Taxes			
Finnish companies	48.6	49.6	-118.9
Swedish companies	14.4	-225.7	-93.0
German companies	11.1	-8.8	-15.6
Other companies	-120.6	-33.3	-169.8
Deferred Tax Expense shown in Tax Reconciliation	**-46.5**	**-218.2**	**-397.3**
Associated Company Taxes	**-1.7**	**8.4**	**19.2**
Total Tax shown in Income Statement	**67.0**	**-108.8**	**-52.0**

Income Tax Reconciliation

EUR million	2003	2004	2005
	Year Ended 31 December		
Tax at domestic rates applicable to profits in the country concerned	22.2	164.8	-86.4
Non-deductible expenses and tax exempt income	-6.8	-45.6	-27.4
Losses where no deferred tax benefit is recognised	48.9	34.8	62.8
Sale of Swedish forests	-	-240.5	-
Change in tax rates and change in tax laws	2.7	-22.3	-1.0
Income Taxes in the Income Statement	**67.0**	**-108.8**	**-52.0**
Effective Tax Rate	**31.8%**	**17.0%**	**29.1%**
Underlying tax rate on normal operations	**31.8%**	**28.9%**	**29.1%**

Income Tax Reconciliation

	Year Ended 31 December								
	2003	2004	2005	2003	2004	2005	2003	2004	2005
EUR million	Current Tax			Deferred Tax			Total Tax		
At 31 December	294.6	169.9	190.6	1 678.7	1 759.2	1 303.2	1 973.3	1 929.1	1 493.8
IAS 41 Agriculture	-	-	-	240.4	-	-	240.4	-	-
At 1 January	294.6	169.9	190.6	1 919.1	1 759.2	1 303.2	2 213.7	1 929.1	1 493.8
Translation difference	1.1	2.4	6.4	-71.5	-17.1	13.7	-70.4	-14.7	20.1
Companies acquired	-5.4	1.7	9.1	5.2	17.5	50.7	-0.2	19.2	59.8
Companies divested	-	8.8	-	-	-231.7	-	-	-222.9	-
OCI	-	-	-	-47.1	-6.6	33.7	-47.1	-6.6	33.7
Equity hedging (Note 26)	42.4	21.0	-52.4	-	-	-	42.4	21.0	-52.4
Income Statement									
Current year	138.8	106.8	243.0	-51.6	18.5	-305.8	87.2	125.3	-62.8
Prior year adjustments	-23.6	-5.8	83.1	5.1	-236.6	-91.5	-18.5	-242.4	-8.4
Tax paid	-278.0	-114.2	-209.0	-	-	-	-278.0	-114.2	-209.0
At 31 December	**169.9**	**190.6**	**270.8**	**1 759.2**	**1 303.2**	**1 004.0**	**1 929.1**	**1 493.8**	**1 274.8**
Liabilities	352.4	351.5	379.3	1 771.3	1 314.6	1 076.2	2 123.7	1 666.1	1 455.5
Assets	-182.5	-160.9	-108.5	-12.1	-11.4	-72.2	-194.6	-172.3	-180.7
Net Tax	**169.9**	**190.6**	**270.8**	**1 759.2**	**1 303.2**	**1 004.0**	**1 929.1**	**1 493.8**	**1 274.8**

In 2004 the company owning the Group's Swedish forest assets was divested, thus the tax provided, had the forest holdings been subject to an asset sale, was not required as Swedish company sale profits are not taxable; SEK 2 195 (EUR 240.5) million was credited to the Income Statement. Also in 2004, Finland passed new tax legislation providing for a reduction in corporate tax rates and changes in capital gains tax. Whilst the reduction in the tax rate from 29% to 26% had a beneficial effect of EUR 44.3 million as at 31 December 2004 when the Group's Finnish deferred tax balances were restated to the new rate, the other changes resulted in a loss of deferred tax assets in 2004 of EUR 24.1 million. Group tax excluding these effects represented an underlying tax rate of 28.9%.

The Group has recognised a deferred tax asset for its net operating loss carry-forwards and established a valuation allowance against this amount based on an analysis of the probability for set-off against future profits in the relevant tax jurisdictions. At 31 December 2005 Stora Enso had losses carried forward, mainly attributable to foreign subsidiaries, of EUR 1 629 (EUR 1 227) million of which some EUR 491 (EUR 440) million had no expiry date, EUR 84 (EUR 76) million expire during the years 2006–2010 and the remainder expire thereafter. Tax loss carry-forwards are netted against deferred tax liabilities within each jointly taxed group of companies and are only shown separately as an asset to the extent that they exceed such liabilities.

No deferred tax liability has been recognised for the undistributed earnings of Finnish subsidiaries as such earnings may be transferred to the Parent Company without any tax consequences. In accordance with IAS 12 Taxes, the Group does not provide for deferred taxes on undistributed earnings of non-Finnish subsidiaries.

Reconciliation of Deferred Tax Balances in 2005

EUR million	As at 1 Jan 2005	Translation Difference	Acquisitions and Disposals	Charge in Income Statement	OCI	As at 31 Dec 2005
Fixed asset depreciation differences	1 326.4	36.0	57.4	-147.1	-	1 272.7
Untaxed reserves	116.4	-5.2	-0.1	-96.7	-	14.4
Pension provisions	51.2	0.6	-1.4	-62.5	-	-12.1
Other provisions	-7.9	0.2	-0.5	-55.2	-	-63.4
Fair value gains less losses	9.0	0.3	-0.2	-15.4	-	-6.3
Unrealised internal profits	-5.5	-	-0.1	-2.6	-	-8.2
Tax losses carried forward	-362.9	-33.8	-5.7	-70.2	-	-472.6
Other	4.8	-2.1	-3.3	-3.0	-	-3.6
Less valuation allowance (Note 10)	129.3	17.7	4.6	55.4	-	207.0
	1 260.8	13.7	50.7	-397.3	-	927.9
Fair value of available-for-sale investments	28.2	-	-	-	12.6	40.8
Fair value of derivative financial instruments	14.2	-	-	-	21.1	35.3
Change in Net Deferred Tax	**1 303.2**	**13.7**	**50.7**	**-397.3**	**33.7**	**1 004.0**
Shown on the Balance Sheet as						
Liabilities	1 314.6	13.6	51.2	-336.9	33.7	1 076.2
Assets	-11.4	0.1	-0.5	-60.4	-	-72.2
	1 303.2	**13.7**	**50.7**	**-397.3**	**33.7**	**1 004.0**

OCI = Other Comprehensive Income Statement – see Note 25.

Reconciliation of Deferred Tax Balances in 2004

EUR million	As at 1 Jan 2004	Translation Difference	Acquisitions and Disposals	Charge in Income Statement	OCI	As at 31 Dec 2004
Fixed asset depreciation differences	1 377.4	-31.7	1.1	-20.4	-	1 326.4
Untaxed reserves	169.1	1.1	-66.8	13.0	-	116.4
Pension provisions	4.9	-6.0	-0.7	53.0	-	51.2
Other provisions	-3.9	-	-	-4.0	-	-7.9
Fair value gains less losses (1)	410.4	-0.2	-159.8	-241.4	-	9.0
Unrealised internal profits	-23.1	-	-	17.6	-	-5.5
Tax losses carried forward	-339.5	19.0	-0.2	-42.2	-	-362.9
Other	7.0	0.7	12.2	-15.1	-	4.8
Less valuation allowance (Note 10)	107.9	-	-	21.4	-	129.3
	1 710.2	-17.1	-214.2	-218.1	-	1 260.8
Fair value of available-for-sale investments	24.1	-	-	-	4.1	28.2
Fair value of derivative financial instruments	24.9	-	5.3	-	-16.0	14.2
Change in Net Deferred Tax	**1 759.2**	**-17.1**	**-208.9**	**-218.1**	**-11.9**	**1 303.2**
Shown on the Balance Sheet as						
Liabilities	1 771.3	-17.1	-208.9	-218.8	-11.9	1 314.6
Assets	-12.1	-	-	0.7	-	-11.4
	1 759.2	**-17.1**	**-208.9**	**-218.1**	**-11.9**	**1 303.2**

OCI = Other Comprehensive Income Statement – see Note 25

1) The Income Statement credit includes EUR 240.5 million relating to the disposal of Swedish forest interests, of which EUR 240.4 million related to the adjustment to the 2003 opening balance for the deferred tax on the fair value surplus on the adoption of IAS 41 Agriculture.

Under IFRS, all deferred tax is shown as non-current even though a proportion will be reversed within twelve months; the table below shows the deferred tax considered to be current and non-current.

Deferred Tax Allocated into Current & Non-Current Balances

	As at 31 December								
	2003	**2004**	**2005**	**2003**	**2004**	**2005**	**2003**	**2004**	**2005**
EUR million	**Non- Current**			**Current**			**Total Deferred Tax**		
Depreciation differences	1 389.7	1 311.4	1 245.2	-12.3	15.0	27.5	1 377.4	1 326.4	1 272.7
Untaxed reserves	35.3	116.4	13.6	133.8	-	0.8	169.1	116.4	14.4
Pension provisions	14.3	61.1	-0.5	-9.4	-9.9	-11.6	4.9	51.2	-12.1
Other provisions	-3.9	-5.0	-40.5	-	-2.9	-22.9	-3.9	-7.9	-63.4
Fair value gains less losses	9.9	9.0	-5.6	400.5	-	-0.7	410.4	9.0	-6.3
Unrealised internal profits	-13.7	-	-	-9.4	-5.5	-8.2	-23.1	-5.5	-8.2
Tax losses carried forward	-334.2	-354.1	-381.5	-5.3	-8.8	-91.1	-339.5	-362.9	-472.6
Other	-33.6	16.0	60.5	40.6	-11.2	-64.1	107.9	4.8	-3.6
Less valuation allowance	107.9	129.3	207.0	-	-	-	7.0	129.3	207.0
	1 171.7	1 284.1	1 098.2	538.5	-23.3	-170.3	1 710.2	1 260.8	927.9
OCI	33.0	35.4	54.6	16.0	7.0	21.5	49.0	42.4	76.1
Total	**1 204.7**	**1 319.5**	**1 152.8**	**554.5**	**-16.3**	**148.8**	**1 759.2**	**1 303.2**	**1 004.0**

Note 10 Valuation Provisions

Provisions for doubtful accounts, obsolete inventories, low inventory market values and tax valuation allowances are shown below:

Valuation and Qualifying Accounts

EUR million	Doubtful Accounts	Stock Obsolescence	Stock Valuation	Deferred Tax	Total Allowances
Carrying value at 1 January 2003	**36.5**	**25.6**	**1.5**	**92.2**	**155.8**
Translation difference	-0.9	-0.9	-	-	-1.8
Charge in Income Statement	10.1	7.5	4.8	15.7	38.1
Reversal in Income Statement	-5.1	-3.6	-	-	-8.7
Carrying Value at 31 December 2003	**40.6**	**28.6**	**6.3**	**107.9**	**183.4**
Translation difference	-0.1	-0.2	-0.2	-	-0.5
Charge in Income Statement	10.1	7.6	2.9	21.4	42.0
Reversal in Income Statement	-10.9	-5.8	-1.8	-	-18.5
Carrying Value at 31 December 2004	**39.7**	**30.2**	**7.2**	**129.3**	**206.4**
Translation difference	0.9	0.8	0.2	17.7	19.6
Acquisitions	13.9	2.5	2.6	4.6	23.6
Charge in Income Statement	4.5	22.4	5.4	100.0	132.3
Reversal in Income Statement	-11.7	-12.2	-4.8	-44.6	-73.3
Carrying Value at 31 December 2005	**47.3**	**43.7**	**10.6**	**207.0**	**308.6**

Note 11 Depreciation, Amortisation and Fixed Asset Impairment Charges

	Year Ended 31 December		
EUR million	**2003**	**2004**	**2005**
Depreciation and Amortisation			
Intangible fixed assets	17.0	20.2	36.0
Buildings and structures	109.3	112.9	123.6
Plant and equipment	904.9	910.8	932.5
Other tangible fixed assets	25.1	23.9	23.6
Goodwill	116.1	90.2	-
Total	**1 172.4**	**1 158.0**	**1 115.7**
Impairment and disposal losses			
Plant and equipment	12.1	14.0	285.2
Other fixed assets	15.9	-	18.8
Goodwill	-	-	8.0
Total	**28.0**	**14.0**	**312.0**
Depreciation, Amortisation and Impairment Charges	**1 200.4**	**1 172.0**	**1 427.7**

During the fourth quarter in 2005 the Group performed impairment tests, partly due to the restructuring programs affecting certain Cash Generating Unit ("CGU") future cash flows and partly due to weakened market conditions. As a result of the impairment tests, Group assets were subject to impairment in the sum of EUR 297.8 million, of which EUR 8.0 million related to goodwill.

Impairments were calculated with a Value in Use method for each CGU based on the following main assumptions:

- Pre-tax discount rates ranging from 8.2% to 10.3%, depending in which countries or continents the CGUs mainly operate.
- Sales price estimates in accordance with external specialist analysis.
- Inflation estimates of approximately 2% p.a.
- Current cost structure to remain unchanged
- For goodwill testing, a five year future period was used after which the perpetuity value was based on zero growth rates, whereas for the fixed asset tests, the period was the remaining expected economical lifetime of the asset.

In addition to these write-downs there were impairments of EUR 14.2 million due to obsolete assets. The total impairment of EUR 312.0 (EUR 14.0) million was distributed to the segments as following:

Segment Impairment

	Year Ended 31 December		
EUR million	2003	2004	2005
Publication Paper	-	11.8	129.5
Fine Paper	-	-	11.4
Merchants	-	-	2.0
Packaging Boards	5.2	1.5	122.1
Wood Products	-	0.7	47.0
Other	22.8	-	-
Total	**28.0**	**14.0**	**312.0**

Total depreciation, amortisation and impairment charges in the Income Statement amounted to EUR 1 427.7 (EUR 1 172.0) million though there are also capital gains on the disposal of fixed assets, shown in Other Operating Income, amounting to EUR 2.1 (EUR 113.0) million, principally relating to land and a few buildings. The main part of the capital gain in 2004 related to the Group's divestment of its Swedish forest holdings company, Bergvik Skog AB (see Note 5), which generated a capital gain of SEK 978 (EUR 107.3) million on the fixed assets therein.

In December 2003 the Group contracted to sell its forestlands in Ontario, Canada, simultaneously writing down the asset by EUR 17.6 million.

Note 12 Fixed Assets

Fixed Asset Summary

	Year Ended 31 December 2005			
EUR million	Property Plant & Equipment	Intangible Fixed Assets	Goodwill	Total Fixed Assets
Acquisition Cost				
At 1 January	**20 707.8**	**281.9**	**2 466.0**	**23 455.7**
Translation difference	416.2	6.3	199.4	621.9
Reclassifications	-14.3	14.3	-	-
Companies acquired	303.9	98.4	114.0	516.3
Additions	1 109.8	19.8	-	1 129.6
Disposals	-287.8	-3.4	-	-291.2
At 31 December	**22 235.6**	**417.3**	**2 779.4**	**25 432.3**
Accumulated Depreciation and Amortisation				
At 1 January	**10 953.0**	**173.8**	**1 678.1**	**12 804.9**
Translation difference	122.8	3.5	131.5	257.8
Companies acquired	116.0	12.0	-	128.0
Disposals	-276.7	-2.1	-	-278.8
Charge for the year	1 079.7	36.0	-	1 115.7
Impairment charges	304.0	-	8.0	312.0
At 31 December	**12 298.8**	**223.2**	**1 817.6**	**14 339.6**
Net Book Value at 31 December 2005	**9 936.8**	**194.1**	**961.8**	**11 092.7**
Net Book Value at 31 December 2004	**9 754.8**	**108.1**	**787.9**	**10 650.8**
Net Book Value at 31 December 2003	**9 964.5**	**80.4**	**902.6**	**10 947.5**

Property, Plant & Equipment

	Year Ended 31 December 2005					
EUR million	**Land and Water**	**Buildings and Structures**	**Plant and Equipment**	**Other Tangible Assets**	**Assets in Progress**	**Total**
Acquisition Cost						
At 1 January	289.3	3 088.3	16 392.5	550.0	387.7	20 707.8
Translation difference	10.3	28.2	370.2	-0.8	8.3	416.2
Reclassifications	1.3	62.5	358.4	8.3	-444.8	-14.3
Companies acquired	33.7	153.9	106.1	6.7	3.5	303.9
Additions	44.0	66.8	724.8	9.1	265.1	1 109.8
Disposals	-0.9	-49.1	-234.8	-3.0	-	-287.8
At 31 December	**377.7**	**3 350.6**	**17 717.2**	**570.3**	**219.8**	**22 235.6**
Accumulated Depreciation and Amortisation						
At 1 January	-	1 370.6	9 258.2	324.2	-	10 953.0
Translation difference	-	0.6	121.4	0.8	-	122.8
Companies acquired	-	46.5	68.4	1.1	-	116.0
Disposals	-	-40.4	-233.3	-3.0	-	-276.7
Charge for the year	-	123.6	932.5	23.6	-	1 079.7
Impairment charges	-	17.8	285.2	1.0	-	304.0
At 31 December	**-**	**1 518.7**	**10 432.4**	**347.7**	**-**	**12 298.8**
Net Book Value at 31 December 2005	**377.7**	**1 831.9**	**7 284.8**	**222.6**	**219.8**	**9 936.8**
Net Book Value at 31 December 2004	**289.3**	**1 717.7**	**7 134.3**	**225.8**	**387.7**	**9 754.8**
Net Book Value at 31 December 2003	**351.2**	**1 671.4**	**7 227.0**	**246.1**	**468.8**	**9 964.5**

The new rules contained in IFRS 3 came into effect in 2004 whereby amortisation of goodwill ceased with effect from 1 April 2004 for new acquisitions and 31 December 2004 for all other existing goodwill. From 1 January 2005 the only value adjustments to the carrying value of goodwill is as a result of the annual impairment testing, which in 2005 resulted in a charge of EUR 8.0 million. Based on the carrying value of goodwill when the new rules came into force, this change has a beneficial effect of some EUR 90 million in 2005 and over the next four years, subject to any impairments that may be found appropriate and any charges for new goodwill.

Stora Enso performs annual impairment tests for all fixed assets, including goodwill, though in the years 2003 and 2004 it was determined that no impairment existed in asset carrying values. In 2005, however, as disclosed in Note 11, weakened market conditions resulted in the Group's assets being subject to impairment in the sum of EUR 312.0 million.

Impairment tests are carried out on each separate cash generating unit and are based on the discounted cash flow valuation method; this incorporates future projections of cash flows and, among other estimates, projections of future product pricing, production levels, product costs, market supply and demand, projected maintenance, capital expenditures and an assumption of a pre-tax weighted average cost of capital.

In 2003 reclassifications of fixed assets amounted to EUR 698.3 million, mainly relating to biological assets, in the form of free standing trees which were reclassified, principally from land, to Biological Assets (see Note 13).

The Group's Fixed Assets at 31 December 2005 include capitalised balances for unamortised computer software development costs, interest (at 6% to 11%) on the construction of qualifying assets and finance lease assets:

Capitalised Values

EUR million	As at 31 December								
	2003	2004	2005	2003	2004	2005	2003	2004	2005
	Computer Software			Capitalised Interest			Finance Leases		
At 1 January	36.3	46.7	67.6	79.4	77.1	70.8	614.4	142.3	126.5
Translation difference	-0.2	-0.6	0.8	-1.3	-0.3	0.7	-88.5	-5.1	9.5
Acquisitions and disposals	-	4.0	2.1	-	-4.8	1.8	-369.4	-	-
Capitalised in the year	18.5	32.8	26.8	5.2	2.5	7.1	21.5	-	-
Depreciation	-7.9	-15.3	-23.7	-6.2	-3.7	-3.7	-35.7	-10.7	-10.1
At 31 December	**46.7**	**67.6**	**73.6**	**77.1**	**70.8**	**76.7**	**142.3**	**126.5**	**125.9**

Computer software includes capitalised own software at the year end of EUR 14.2 (EUR 16.4) million; additions during the year were EUR 3.7 (EUR 2.1) million and depreciation was EUR 6.3 (EUR 4.2) million.

Fixed Asset Additions

There was one material acquisition in 2005, along with several smaller ones, total acquisitions of Group companies amounting to EUR 328.9 (EUR 180.3) million; the acquisition value of the operating fixed assets therein came to EUR 388.3 (EUR 190.2) million, of which EUR 114.0 (EUR 6.9) million related to Goodwill. Total acquisitions of Group companies in 2003 amounted to EUR 128.2 million, the acquisition value of the operating fixed assets therein being EUR 206.4 million of which EUR 73.8 million related to Goodwill.

Capital expenditure for the year in Stora Enso Oyj and its subsidiaries amounted to EUR 1 129.6 (EUR 975.1) million. However, a further major investment is being undertaken at the Veracel Pulp Mill in Brazil, where the Group has injected equity of EUR 327.8 million; fixed assets in this company amounted to some EUR 1 051.4 (EUR 648.6) million, but as the Group interest in this venture is only 50%, it is dealt with under equity accounting and is included on the Balance Sheet as an Investment in an Associate Company; see Note 14. No major new projects were commenced or announced in 2005, capital expenditure for the year largely relating to projects from 2004 and earlier.

Principal Capital Expenditure Projects in 2005

EUR million	Country	Project	Pre-2005 Costs	2005 Costs
Publication Paper				
Biron	USA	Rebuild PM26	20.1	14.0
Corbehem	France	Upgrade PM5	31.7	38.7
Hylte	Sweden	Boiler rebuild	-	13.9
Kvarnsveden	Sweden	New boiler	48.0	5.3
Kvarnsveden	Sweden	PM12 construction	89.3	351.3
Summa	Finland	Upgrade PM2	24.0	28.3
Varkaus	Finland	Thermo-mechanical pulp line	32.4	2.3
Whiting	USA	Rebuild PM 64	2.9	11.3
Fine Paper				
Suzhou	China	Rebuild PM1	1.9	20.2
Veitsiluoto	Finland	Rebuild PM3	118.4	2.4
Wisconsin Rapids	USA	Rebuild PM16 phase 2	24.2	13.7
Packaging Boards				
Intercell	Poland	Corrugated packaging & ind. papers	-	20.4
Skoghall	Sweden	Energy 2005 Project	76.1	88.1

Publication Paper had a number of projects in France, Sweden, Finland and the USA, which were completed in the earlier part of the year. The major project, being the new EUR 470 million paper machine at Kvarnesveden in Sweden, was finished later in the year and commenced production in November; the annual capacity will be some 420 000 tonnes of super-calendered paper. A new project commenced in 2005 was the rebuild of boiler 2 at Hylte Mill in Sweden at a cost of some EUR 40 million, of which EUR 13.9 million was spent in 2005 with the remaining amounts due in early 2006.

Fine Paper completed various projects in the earlier part of the year, their major remaining project during the rest of the year being enhancements to the paper machine at Suzhou in China.

The major project for Packaging Boards was the 2005 Energy project at Skoghall Mill in Sweden which will substantially reduce oil consumption at the mill, increase electricity self-sufficiency and reduce emissions; the project will be completed in 2006. Packaging Boards also invested in their recently acquired Polish interest and had intended to invest heavily in China, but this later project was cancelled at the due diligence stage.

In late 2005 Stora Enso signed an agreement with Gaofeng Forest, Pulp and Paper Company to purchase 34 000 hectares of timber and land use rights in Guangxi, China, in addition to the EUR 16.8 million spent there in 2005 and EUR 27.6 million to date; total holdings will then amount to some 60 000 hectares out of a targeted 120 000 hectares of industrial hardwood plantations to provide fibre for potential integrated pulp, paper and board production in the vicinity.

The Group also bought 37 000 hectares of land for plantations in southern Brazil and 20 000 hectares in Uruguay for EUR 46.2 million, the intention being to acquire some 100 000 hectares in each country to serve as a fibre base for possible future pulp and paper production in those locations.

In December 2005 it was decided to upgrade and modernise BM2 at Fors Mill in Sweden at an estimated cost of EUR 35 million, the project to start in 2006 and be completed in 2007.

Fixed Asset Disposals

	Year Ended 31 December		
EUR million	**2003**	**2004**	**2005**
Acquisition cost	341.7	292.0	291.2
Accumulated depreciation	306.6	161.5	278.8
Net book value of disposals	35.1	130.5	12.4
Net gains on disposals	12.4	113.0	2.1
Disposals Proceeds	**47.5**	**243.5**	**14.5**
Represented by			
Cash sales proceeds	47.5	36.4	14.5
Group company disposals	-	207.1	-
Total Fixed Asset Disposals	**47.5**	**243.5**	**14.5**

The principal disposal in 2004 related to the divestment of the Swedish forests, the fixed asset element therein, exclusive of the forests themselves, being EUR 89.9 million along with a capital gain of EUR 107.3 million representing the goodwill realised. Fixed asset disposals in 2003 and 2005 comprised minor sales in the normal course of operations.

Most Group interests in biological assets are held in Associates, thus there is limited activity in respect of biological assets disclosed on the Balance Sheet. In 2005 Stora Enso continued to expand its plantations in China with a view to ensuring secure fibre sources for any potential developments there. In addition, towards the end of the year the Group started to acquire land in the south of Brazil and in Uruguay with the intention of establishing new plantations, though no biological assets had been created by the year end.

At 1 January 2004, 95% of the Group's biological assets were in Sweden, however these were divested in March that year when the Group's forest holding company, Bergvik Skog AB, was divested to institutional investors, Stora Enso retaining a minority shareholding of 43.3%. The divestment value of Bergvik Skog's free standing trees was EUR 1 524.6 (SEK 13 753) million and, from the divestment date, the income arising there from is reported as Associated income (see Note 14).

In October 2004 Stora Enso divested its majority shareholding in PT Finnantara Intiga, its Indonesian acacia plantation company. The book value of the plantation at sale was EUR 21.8 million.

The accounting standard IAS 41, Agriculture, under which Stora Enso's biological assets in the form of standing trees are fair market valued, came into effect on 1 January 2003. The value of Group forests thus increased from a previous book value of EUR 705.9 million to a fair value of EUR 1 561.7 million. The revaluation surplus amounted to EUR 855.8 million, and, following the sale of the Swedish forest interests, this was realised. The initial IAS 41 fair value adjustment on account of the Group's forest Associates added a further EUR 44.0 million to equity net of deferred tax.

Following the divestment of the Swedish forests in 2004, biological income is not material, nevertheless, periodic changes resulting from growth, price and other factors are entered in the Income Statement. The result for 2005 includes EUR 6.6 (EUR 37.5) million in respect of changes in fair value, representing growth and price effects (biological transformation), less EUR 13.3 (EUR 30.4) million for harvesting (agricultural produce), resulting in a net loss (gain) of EUR -6.7 (EUR 7.1) million.

At 31 December 2005 Stora Enso's remaining biological assets had a fair value of EUR 76.8 (EUR 64.6) million and were located by value in Portugal (61%), China (36%) and Canada (3%). In addition, the Group has three Associated Companies where IAS 41 is taken into account in computing their results:

- Bergvik Skog AB, the 43.3% owned Swedish associate, had biological assets at a fair value of EUR 2 595.9 (2 622.6) million.
- Tornator Timberland Oy, a 41% owned associate which acquired the Group's Finnish forest interests in 2002, had biological assets at a fair value of EUR 649.5 (EUR 614.9) million.
- Veracel, a 50% owned associate in Brazil, also has substantial forest plantations, fair valued at EUR 107.2 (EUR 70.0) million, with a growing cycle of only seven years.

Biological Assets

	As at 31 December		
EUR million	**2003**	**2004**	**2005**
Assets reclassified from Fixed Assets (see Note 12)	705.9		
Fair valuation surplus	855.8		
Initial IAS 41 Valuation at 1 January 2003	**1 561.7**		
Carrying value at 1 January	**1 561.7**	**1 587.8**	**64.6**
Translation difference	8.3	6.4	3.2
Additions	7.2	4.5	15.7
Disposals	-1.0	-1 541.2	-
Change in fair value (biological transformation)	116.2	37.5	6.6
Decrease due to harvest (agricultural produce)	-104.6	-30.4	-13.3
Carrying Value at 31 December	**1 587.8**	**64.6**	**76.8**

Carrying Values

EUR million	Year Ended 31 December 2003	2004	2005
Historical Cost			
At 1 January	225.3	319.7	566.7
Translation difference	-7.0	-1.4	-2.7
Additions	103.5	250.4	55.7
Associated companies in Acquisitions	-	-	1.2
Disposal proceeds	-0.4	-0.1	-
Income Statement – Profit on disposal	0.3	-	-
Subsidiary transfers	-2.4	-1.9	-6.5
Transfer to available-for-sale investments	0.4	-	-
Historical cost at 31 December	**319.7**	**566.7**	**614.4**
Equity Adjustment to Investments in Associated Companies			
At 1 January	-13.6	-0.7	1.4
Translation difference	-1.9	0.1	65.3
Effect of adopting IAS 41 Agriculture	44.0	-	-
Share of results before tax	-23.0	38.9	67.2
Dividends received	-3.2	-7.5	-11.6
Income taxes	1.7	-8.4	-19.2
OCI on Bergvik Skog AB (Note 25)	-	-19.0	0.9
Subsidiary transfers	-4.7	-2.0	1.5
Equity Adjustment at 31 December	**-0.7**	**1.4**	**105.5**
Carrying Value of Associated Companies at 31 December	**319.0**	**568.1**	**719.9**

There is no goodwill in respect of Associated Companies, either held on the Balance Sheets of those companies or in the ownership of them. The Associated Companies are all stated at their equity accounting values, though in respect of Tornator Timberland Oy and Bergvik Skog AB, there are also provisions for unrealised gains of EUR 44.2 million and EUR 73.5 million respectively shown in Note 24 Operative Liabilities.

The principal addition in 2005, 2004 and 2003 related to the Group's Brazilian interests where Stora Enso and its Brazilian partner, Aracruz Celulose S.A., have constructed a 900 000 tonnes per year eucalyptus pulp mill for their jointly owned associate company Veracel Celulose S.A.; each company has a 50% stake and will be entitled to half of the mill's output. Veracel was financed partly through equity, some EUR 645 (EUR 400) million, and partly through debt, some EUR 680 (EUR 330) million, giving a total project value of EUR 1 325 (EUR 730) million, the appreciation of the Brazilian Real having increased this by some EUR 320 million in 2005. The principal assets are the pulp mill itself along with associated infrastructure, amounting EUR 1 051.4 (EUR 648.6) million at the year end, and biological assets of EUR 107.2 (EUR 70.0) million to provide the mill with raw material. Equity injections amount to EUR 327.8 (EUR 273.0) million, and after the deduction of start-up costs of EUR 22.7 (EUR 22.5) million and currency fluctuations of EUR 2.6 (EUR -60.7) million, gives a carrying value to the Group of EUR 307.7 (EUR 189.8) million. The mill commenced production in May 2005 and the first shipments of pulp were sent to Stora Enso mills in Europe and China in July.

In March 2004, 56.74% of Stora Enso's Swedish forest holding company, Bergvik Skog AB, was divested to institutional investors, leaving the Group with a minority shareholding of 43.26% valued at cost of EUR 169.3 (SEK 1 527) million. In 2005 the carrying value increased to EUR 200.0 million on account of the Group's share of the result for the year of EUR 56.5 (EUR 24.2) million, less tax of EUR 15.8 (EUR 6.8) million, and cashflow hedge-accounted interest rate swaps of EUR 1.7 (EUR -19.0) million, but was reduced by currency movements of EUR 8.4 million and a dividend of EUR 2.5 million.

Principal Associated Companies

Company	Domicile	2005	2003	2004	2005
			As at 31 December		
		%	EUR million		
Veracel Celulose S.A.: pulp mill & plantation	Brazil	50.0	104.7	189.8	307.7
Bergvik Skog AB: forest	Sweden	43.3	-	167.9	200.0
Tornator Timberland Oy: forest	Finland	41.0	83.0	81.7	97.6
Sunila Oy: pulp mill	Finland	50.0	44.4	48.8	40.0
Thiele Kaolin Company Inc: China clay	USA	38.2	37.1	36.6	43.2
Steveco Oy: stevedores	Finland	34.3	12.5	9.3	5.6
Mitsubishi HiTec Paper Group (Bielefeld & Flensburg): office papers	Germany	24.0	7.3	7.2	6.8
Holzwerke Wimmer GmbH: timber processing [1)]	Germany	49.0	5.6	7.6	-
			294.6	548.9	700.9
Others			24.4	19.2	19.0
Carrying Value of Associated Companies at 31 December			**319.0**	**568.1**	**719.9**

1) Became a subsidiary in early 2005

Associated Company Balances

EUR million	2003	2004	2005
	As at 31 December		
Receivables from Associated Companies			
Long-term loan receivables	34.8	229.6	124.4
Trade receivables	21.6	28.9	19.2
Short-term loan receivables	14.4	9.5	3.4
Prepaid expenses and accrued income	0.8	0.9	0.8
Liabilities due to Associated Companies			
Trade payables	13.6	16.2	27.0
Accrued liabilities and deferred income	0.1	6.4	4.0

Associated Company Transactions

EUR million	2003	2004	2005
	Year Ended 31 December		
Sales to associated companies	139.6	166.4	118.3
Interest on associated company loan receivables	3.1	15.1	18.0
Purchases from associated companies	54.2	150.0	223.4

The Group engages in transactions with associated companies, such as sales of wood material and purchases of wood, energy and pulp products. All agreements in Europe are negotiated at arm's length and are conducted on terms that the Group considers customary in the industry and generally no less favourable than would be available from independent third parties. The agreement for the supply of eucalyptus pulp from Brazil, however, provides for sales to the Group with a rebate agreed with the other 50% partner.

Total loans to Associates came to EUR 127.6 (EUR 239.1) million of which EUR 81.4 (EUR 178.8) million was due from Bergvik Skog and a further EUR 41.5 (EUR 38.3) million from Tornator. Interest income on associate loans totalled EUR 18.0 (EUR 15.1) million, of which EUR 14.2 (EUR 11.4) million came from Bergvik Skog and EUR 3.4 (EUR 3.1) million from Tornator. In November the Group transferred a nominal SEK 850 (EUR 90.5) million of Loan Notes in Bergvik Skog to its newly established Swedish pension foundation; the values of these securities were independently appraised and the Group realised a profit of EUR 10.3 million.

Group Share of Associate Income Statements

EUR million	2004	2005
Turnover	351.2	449.8
Cost of Sales	-263.9	-325.6
Operating Profit	87.3	124.2
Net financial items	-48.4	-57.0
Net profit before Tax in the Group Income Statement	**38.9**	**67.2**
Tax shown in the Group Income Statement	-8.4	-19.2
Net Profit for the Period	**30.5**	**48.0**

Group Share of Associate Balance Sheets

EUR million	2004	2005
Assets		
Tangible fixed assets	636.9	788.7
Intangible fixed assets	4.8	4.0
Total Fixed Assets	641.7	792.7
Biological assets	1 379.5	1 448.8
Operative receivables: Long-term	4.4	34.8
Short-Term	71.2	103.8
Inventories	32.4	55.1
Cash	64.1	46.0
	2 193.3	**2 481.2**
Liabilities		
Operative Liabilities: Long-term	70.3	84.1
Short-term	113.3	123.9
Debt: Long-term	1 010.3	1 122.5
Short-term	55.0	57.4
Tax Liabilities	376.3	373.4
	1 625.2	**1 761.3**
Net Equity on the Group Balance Sheet	**568.1**	**719.9**
Represented by		
Capital & reserves	587.1	737.2
OCI (see Note 25)	-19.0	-17.3
Equity Accounting Value of Associates	**568.1**	**719.9**

Note 15 Available-for-Sale Investments

The Group classifies its investments into the three categories of trading, held-to-maturity and available-for-sale; at the Balance Sheet date the Group held only available-for-sale investments. All available-for-sale investments are considered to be non-current assets unless they are expected to be realised within twelve months.

Summary of Values

EUR million	Year Ended 31 December 2003	2004	2005
Acquisition cost at 1 January			
Listed – Listed securities	145.2	147.2	137.2
Unlisted – Shares in other companies	148.5	140.8	132.7
Investments classified as available-for-sale	293.7	288.0	269.9
Effect of IAS 39: OCI	24.0	80.5	83.0
Available-for-Sale investments at 1 January	317.7	368.5	352.9
Translation difference	0.1	0.1	-0.1
Additions	28.4	13.2	8.6
Change in fair values (OCI)	56.5	2.5	352.5
Disposal proceeds	-33.3	-32.8	-97.4
Income Statement – Profit / (loss)	-0.9	1.4	-1.3
Carrying Amount at 31 December	**368.5**	**352.9**	**615.2**

Unrealised Gains and Losses in Marketable Equity Securities

EUR million	Year Ended 31 December 2003	2004	2005
Unrealised holding gains	92.9	111.2	436.2
Unrealised holding losses	-12.4	-28.2	-0.7
Net unrealised holding gains (OCI)	**80.5**	**83.0**	**435.5**
Cost	288.0	269.9	179.7
Market value	**368.5**	**352.9**	**615.2**
Net unrealised holding gains (OCI)	80.5	83.0	435.5
Deferred tax	-24.1	-28.2	-40.8
Unrealised holding gains shown in equity as OCI	**56.4**	**54.8**	**394.7**
Change for the year in unrealised holding gains shown in equity as OCI	**40.0**	**-1.6**	**339.9**

The market value has not been below carrying value of any security for more than twelve months.

The fair value of publicly traded securities are based on quoted market prices at the Balance Sheet date whereas the fair value of other securities are assessed using a variety of methods and assumptions based on market conditions existing at each Balance Sheet date; quoted market prices or dealer quotes for similar or identical securities may be obtained, alternatively, other techniques such as option pricing models and estimated discounted values of future cash flows, may also be used.

As a result of the rise in energy prices in 2005, unlisted shares in a power producer experienced a substantial increase in value. The fair value of these shares was thus estimated to have risen by EUR 279.4 million, no deferred tax being appropriate thereon as under Finnish tax regulations, holdings above 10% are exempt from tax on disposal proceeds.

Stora Enso signed an agreement in August 2005 to divest its 18.8% ownership of Advance Agro Public Company Limited of Thailand to private investors based in Hong Kong for USD 80.4 million, which resulted in a loss at the prevailing exchange rate of EUR 2.6 million over its carrying value of EUR 69.1 million. The transaction is structured with three USD instalment payments into an escrow account, the first having been paid on signing with the last being a year later. When the purchaser has made all three payments into the escrow account, the contents will then be passed to the Group and the share certificates handed over. Until that time, the Group retains beneficial title to the shares and shows a current Available-for-Sale financial asset of EUR 68.2 (USD 80.4) million under current Interest-bearing Receivables on the Balance Sheet, holding exchange gains having been EUR 1.7 million to the year end. See Note 18.

Principal Available-for-Sale Investments

	As at 31 December 2005			
EUR million	**Holding %**	**Number of Shares**	**Carrying Value**	**Market Value**
Listed Securites				
Alfred Berg growth funds	na	various	5.3	7.0
Billerud AB, Sweden	0.5	131 500	0.8	1.2
CPI Group Ltd, Australia (11.5% of voting rights)	8.5	4 784 142	1.5	1.5
Finnlines Oyj, Finland	5.5	2 209 340	1.9	31.8
Nordea AB, Sweden	0.1	991 213	2.3	8.7
Nordea growth funds, Finland	na	various	6.1	8.2
Packages Ltd, Pakistan		4 047 744	2.7	11.6
Sampo Plc, A series, Finland,	1.6	8 911 140	25.7	131.2
Sea Containers Ltd, Bermuda	1.1	195 904	2.7	2.1
Other growth funds	na	various	6.5	7.6
OM HEX AB		61 000	-	0.7
Total Listed Securities			**55.5**	**211.6**
Unlisted Shares			**124.2**	**403.6**
Total Available-for-Sale Investments at 31 December 2005			**179.7**	**615.2**
Total Available-for-Sale Investments at 31 December 2004			**269.9**	**352.9**
Total Available-for-Sale Investments at 31 December 2003			**288.0**	**368.5**

The difference of EUR 435.5 (EUR 83.0) million between the acquisition cost and market value of the available-for-sale investments represents the OCI Reserve as shown in Note 25.

Note 16 Other Non-Current Assets

	As at 31 December		
EUR million	**2003**	**2004**	**2005**
Pension Assets (see Note 21)			
Stora Enso North America Corp	124.4	170.3	183.3
Other companies	-	-	57.8
	124.4	170.3	241.1
Other non-current operative assets	45.9	40.2	28.3
Total	**170.3**	**210.5**	**269.4**

Note 17 Inventories

	As at 31 December		
EUR million	**2003**	**2004**	**2005**
Materials and supplies	393.5	407.9	546.5
Work in progress	76.2	74.2	73.9
Finished goods	813.3	872.2	1 097.8
Spare parts and consumables	299.2	316.5	333.4
Other inventories	31.9	29.9	5.4
Advance payments & cutting rights	44.3	108.0	147.8
Obsolescence provision – spare parts	-15.7	-19.6	-30.2
Obsolescence provision – finished goods	-12.9	-10.6	-13.5
Market value provision	-6.3	-7.2	-10.6
Total	**1 623.5**	**1 771.3**	**2 150.5**

Note 18 Receivables

Short-term Operative Receivables

EUR million	As at 31 December 2003	2004	2005
Trade receivables	1 461.2	1 565.2	1 792.7
Provision for doubtful debts	-40.6	-39.8	-47.3
Prepaid expenses and accrued income	109.8	96.6	118.0
Other receivables	172.9	243.3	294.5
Total	**1 703.3**	**1 865.3**	**2 157.9**

Receivables falling due after one year are included in non-current receivables.

Interest-bearing Receivables

EUR million	As at 31 December 2003	2004	2005
Restricted US cash balance for cross-border leasing	443.6	-	-
Derivative financial instruments (see Note 25)	277.0	193.9	195.6
Associate company loans	46.1	239.1	127.8
Current Available-for-Sale financial asset - Advance Agro PCL (see Note 15)	-	-	68.2
Other loan receivables	59.4	48.8	45.2
	826.1	**481.8**	**436.8**
Current Assets:			
Receivable within 12 months	781.8	248.7	309.2
Non-current Assets:			
Receivable after 12 months	44.3	233.1	127.6
Total	**826.1**	**481.8**	**436.8**

Annual interest rates for loan receivables at 31 December 2005 ranged from 0.9% (2.0%) to 9.0% (9.0%).

Due to the nature of the Group financial assets, their carrying value is considered to approximate their fair value with the exception of the Associate Company loan to Bergvik Skog AB which has a fair value of EUR 90.9 million against a carrying value of EUR 81.4 million.

Note 19 Shareholders' Equity

Under the Articles of Association, the minimum issued share capital of the Company is EUR 850 million and the maximum EUR 3 400 million, within the limits of which it may be increased or reduced without amendment to the Articles; the minimum number of shares that may be issued is 500 million and the maximum number 2 000 million. The A shares entitle the holder to one vote per share whereas R shares entitle the holder to one vote per ten shares with a minimum of one vote, though the nominal value of both shares is the same. The maximum number of A shares is 500 million and R shares, 1 600 million, the aggregate not exceeding 2 000 million. The A shares may be converted into R shares at any time at the request of a shareholder. At 31 December 2005 the Company's fully paid-up share capital as entered in the Finnish Trade Register was EUR 1 382.1 (EUR 1 423.3) million.

As from 1997, the Finnish Companies Act determined that the individual nominal value of shares would no longer be a fixed sum, but would instead represent the total value of the issued share capital divided by the number of shares in issue. The current nominal value of each issued share is EUR 1.70, unchanged from the previous year.

At 31 December 2005 Stora Enso Oyj held shares with an acquisition cost of EUR 259.8 (EUR 180.8) million, comprising 38 600 Series A shares along with 24 373 452 Series R shares, and representing 3.0% of the share capital and 1.0% of voting rights.

At the end of 2005 Directors and Management Group members owned 24 090 (35 121) A shares and 136 887 (192 534) R shares, representing less than 0.1% of the total voting rights of the Company. A full description of Company Option Programmes, along with full details of Director and Executive interests, is shown at Note 29; none of these Programmes have impacted on the issued share capital since March 2004.

At 31 December 2005 shareholder equity amounted to EUR 7 645.3 (8 051.1) million against a market capitalisation on the Helsinki Exchanges of EUR 9.3 (EUR 9.5) billion; the market values of the shares were EUR 11.46 (EUR 11.55) for A shares and EUR 11.44 (EUR 11.27) for the R shares.

Change in Share Capital

	Series A	Series R	Total
At 1 January 2003	**182 316 685**	**717 461 614**	**899 778 299**
Cancellation of repurchased shares 31 Mar	-93 800	-35 500 000	-35 593 800
Conversion of A shares to R shares	-1 011 805	1 011 805	-
Warrants exercised	-	78 000	78 000
At 31 December 2003	**181 211 080**	**683 051 419**	**864 262 499**
Warrants exercised by 31 Mar	-	789 000	789 000
Cancellation of repurchased shares 5 Apr	-8 100	-27 800 000	-27 808 100
Conversion of A shares to R shares	-2 154 457	2 154 457	-
At 31 December 2004	**179 048 523**	**658 194 876**	**837 243 399**
Conversion of A shares to R shares 17 Jan	-114	114	-
Conversion of A shares to R shares 16 Feb	-1 764	1 764	-
Cancellation of repurchased shares 31 Mar	-16 300	-24 250 000	-24 266 300
Conversion of A shares to R shares 15 Apr	-10 100	10 100	-
Conversion of A shares to R shares 16 May	-400 709	400 709	-
Conversion of A shares to R shares 15 June	-740	740	-
Conversion of A shares to R shares 15 July	-296 955	296 955	-
Conversion of A shares to R shares 15 Aug	-150 000	150 000	-
Conversion of A shares to R shares 17 Oct	-10 000	10 000	-
Conversion of A shares to R shares 15 Nov	-83	83	-
Conversion of A shares to R shares 15 Dec	-1 980	1 980	-
At 31 December 2005 and 31 January 2006	**178 159 778**	**634 817 321**	**812 977 099**
Number of votes as at 31 December 2005	**178 159 778**	**63 481 732**	**241 641 510**
Share Capital at 31 December 2005, EUR million	**302.9**	**1 079.2**	**1 382.1**
Share Capital at 31 December 2004, EUR million	**304.4**	**1 118.9**	**1 423.3**
Share Capital at 31 December 2003, EUR million	**308.1**	**1 161.2**	**1 469.3**

Nominal Value for all Shares is EUR 1.70.

The shares in issue at 31 January 2006 represent the total shares eligible to vote at the forthcoming Annual General Meeting.

Treasury Shares

	Number of Shares in 2005			Cost in EUR million		
	Series A	Series R	Total	2003	2004	2005
Shares held at 1 January	12 300	16 794 931	16 807 231	314.9	258.0	180.8
Total shares repurchased in the year	42 600	31 857 600	31 900 200	319.6	199.0	345.0
Shares cancelled	-16 300	-24 250 000	-24 266 300	-376.0	-275.8	-265.7
Shares allocated to Option Programmes	-	-29 079	-29 079	-0.5	-0.4	-0.3
Total Shares held at 31 December	**38 600**	**24 373 452**	**24 412 052**	**258.0**	**180.8**	**259.8**

The Annual General Meeting on 22 March 2005 decided to reduce the Company's share capital by EUR 41.2 (EUR 47.3) million by cancelling 16 300 (8 100) A shares and 24 250 000 (27 800 000) R shares; these shares were repurchased between March 2004 and February 2005 under authorisation granted by the previous Annual General Meeting.

Quarterly Share Repurchases

	Number of Shares			Cost in EUR million		
	Series A	Series R	Total	Series A	Series R	Total
January – March	10 000	9 393 200	9 403 200	0.1	106.5	106.6
April – June	27 700	19 797 100	19 824 800	0.3	208.9	209.2
July – September	4 900	1 911 100	1 916 000	0.1	20.7	20.8
October – December	-	756 200	756 200	-	8.4	8.4
Total Shares Repurchased	**42 600**	**31 857 600**	**31 900 200**	**0.5**	**344.5**	**345.0**
Shares allocated to Option Programmes	-	-29 079	-29 079	-	-0.3	-0.3
Net Share Repurchases in 2005	**42 600**	**31 828 521**	**31 871 121**	**0.5**	**344.2**	**344.7**
Net Share Repurchases in 2004	**12 300**	**18 413 552**	**18 425 852**	**0.1**	**198.5**	**198.6**
Net Share Repurchases in 2003	**16 500**	**33 423 848**	**33 440 348**	**0.2**	**318.9**	**319.1**

Quarterly Values for Share Repurchases

	Series A			Series R		
EUR	Lowest	Average	Highest	Lowest	Average	Highest
January – March	10.87	11.18	11.69	10.76	11.35	11.88
April – June	10.10	10.73	10.91	10.17	10.55	11.21
July – September	10.48	10.70	10.86	10.48	10.84	11.01
October – December	-	-	-	11.10	11.13	11.18
Summary for 2005	**10.10**	**10.83**	**11.69**	**10.17**	**10.82**	**11.88**
Summary for 2004	**10.37**	**10.66**	**11.01**	**10.09**	**10.77**	**11.50**
Summary for 2003	**9.00**	**9.60**	**11.41**	**8.70**	**9.54**	**11.52**

At 31 December 2005 the Group's distributable equity amounted to EUR 3 349.1 (EUR 3 659.8) million, being Retained Earnings of EUR 5 397.4 (EUR 5 935.9) less EUR 2 048.3 (EUR 2 276.1) million for non-distributable translation differences, treasury shares and untaxed reserves.

Note 20 Minority Interests

Stora Enso Timber Oy exercised its option to buy-out the 34% Minority in its Baltic subsidiary, Stora Enso Timber AS and make its Baltic operations 100% owned. The value of the Minority at 31 December 2004 amounted to EUR 27.4 million, thus with the 2005 purchase consideration coming to EUR 55.3 million, a charge of EUR 27.9 million was made against Retained Earnings. Stora Enso Timber AS itself had a small Minority in the ownership of its Imavere Sawmill which was bought out during the year and other Minorities in timber businesses in Australia and Germany were also extinguished; the price for these three small Minorities was EUR 3.6 million and this resulted in a charge against Retained Earnings of EUR 1.5 million.

Stora Enso acquired UPM-Kymmene Oyj's 29% minority shareholding in Corenso United Oy Ltd. The cost of the share acquisition totalled EUR 22.3 million with a charge against Retained Earnings of EUR 7.2 million above the equity accounting value of the Minority at 31 December 2005 of EUR 15.1 million. Other Minorities still remaining within certain Corenso subsidiaries amount to EUR 4.9 million.

In July 2005 Stora Enso China Holdings AB increased its ownership of Suzhou Mill from 80.9% to 96.5% by acquiring the 15.6% holding of the Suzhou Handicraft Co-operative in Suzhou Papyrus Paper Company Ltd. The acquisition cost EUR 8.5 million with a charge to Retained Earnings of EUR 7.4 million. The remaining Minority of 3.5% is owned by the Suzhou New District Economic Development Group.

The Group bought out other Minority Interests at a cost of EUR 4.6 million which resulted in a gain to Retained Earnings of EUR 1.0 million.

In December 2004 Stora Enso closed its acquisition of 65.5% of the Polish packaging producer Intercell S.A. The fair value of the net assets acquired, including net cash and deferred tax liabilities, amounted to EUR 201.2 million, of which the accounting value of the minority interest was EUR

69.4 million, with another EUR 0.5 million minority within the Intercell group. This increased to EUR 75.6 million during 2005, the overall figure representing the accounting value under IFRS and not its market value.

Minority Interests

EUR million	Year Ended 31 December 2003	2004	2005
At 1 January	30.4	60.3	136.1
Translation difference	-1.6	-0.3	4.1
Minority Interests in companies acquired	27.6	69.9	0.9
Buy-out of Minority Interests	-	-	-94.2
Charge to Retained Earnings on buy-outs	-	-	43.2
Income Statement	5.8	8.1	3.7
Dividends	-1.9	-1.9	-1.8
Equity injections	-	-	1.6
At 31 December	**60.3**	**136.1**	**93.6**

Principal Minority Interests

EUR million		As at 31 December 2003	2004	2005
Intercell S.A. Group	Poland	-	69.9	75.6
Stora Enso Timber AS Group	Estonia	27.5	29.0	0
Corenso United Oy Group	Finland	16.9	18.3	4.9
Enocell Oy	Finland	4.2	4.2	-
FPB Holding GmbH & Co. KG (the former Feldmühle Group)	Germany	2.0	2.0	0.8
Fortek Oy	Finland	3.9	3.5	4.0
Others	-	5.8	9.2	8.3
		60.3	**136.1**	**93.6**

Note 21 Post-Employment Benefits

The Group has established a number of pension plans for its operations throughout the world. In Finland pension cover since 2001 has been entirely arranged through local insurance companies, whereas in Sweden cover was arranged through both insurance companies and book reserves in accordance with the Swedish "PRI/FPG System" until the set up of a new pension foundation in July 2005. Pension arrangements outside Scandinavia are made in accordance local regulations and practice, the retirement benefits generally being a function of years worked and final salary, and are coordinated with national pensions. The Group also has some fully insured plans and defined contribution plans, the charge to the Income Statement for the latter amounting to EUR 197.0 (EUR 201.8) million for the year.

Group policy for funding its defined benefit plans is intended to satisfy local statutory funding requirements for tax deductible contributions, together with adjusting to market rates the discount rates used in actuarial calculations; the charge in the Income Statement for year amounted to EUR 49.7 (EUR 63.3) million. In 2004, legal changes in the Finnish Statutory Employment Pension Scheme ("TEL") reduced defined benefit pension costs for that year by EUR 179.9 million and EUR 4.4 million in 2005, resulting in a net income of EUR 116.6 million as against a defined benefit plan charge in 2005 of EUR 45.3 million.

In 2004 the Group restated its accounting treatment of the Finnish Statutory Employment Pension Scheme ("TEL"). Stora Enso had previously treated the TEL disability pension component as a defined contribution scheme, however in April 2004 the major accounting firms interpreted this differently as a defined benefit scheme under IFRS. As a result, Stora Enso changed its treatment at that time and restated its previous results such that its 2003 pension provisions were restated from EUR 727.6 million to EUR 911.9 million, the difference being EUR 184.3 million. In late 2004 the Finnish Ministry of Social Affairs and Health approved changes to the TEL to enable it to be accounted for as a defined contribution liability under IFRS. This allowed Stora Enso to release all but EUR 4.4 million of the provision, since the above restated figures for 2003 and prior years remained unchanged.

The Group also funds certain other post-employment benefits, mainly in North America, relating to retirement medical and life insurance programmes, the charge for the year being EUR 32.3 million. In 2004 a gain of EUR 32.9 million was reported as a result of changes in US healthcare plans which had a positive non-cash effect of EUR 76.8 million; in 2005 additional changes resulted in a further gain of EUR 2.5 million. The gains on the US plans represented the reversal of costs already taken in respect of various US retiree healthcare programs provided to both current and future retirees that were modified as part of the fixed cost reduction programme in Stora Enso North America

Retirement age for the management of Group companies has been agreed at between 60 and 65 years, though members of the Executive Management Group have the right to retire at 60.

In July 2005 the Group set up a foundation to deal with its main Swedish pension liabilities. Whereas previously the Swedish pension liabilities had been unfunded and carried on the Balance Sheets of the individual Swedish units, with the new foundation, liabilities have been removed from the Group Balance Sheet and pension obligations are now funded. The remaining liability shown in Sweden of EUR 11.8 million represents amounts due to a second pension scheme, though the Group is also now showing a pension asset in Sweden of EUR 12.9 million, being the difference between the local GAAP and IAS basis of accounting.

Pension and Post-Employment Benefit Provisions

EUR million	As at 31 December 2003	2004	2005
Defined benefit plan liabilities	707.7	513.9	331.1
Other post-employment benefit liabilities	204.2	123.9	162.9
	911.9	637.8	494.0
Defined benefit plan assets (Note 16)	124.4	170.3	241.1
Total	**787.5**	**467.5**	**252.9**

Balance Sheet Receivables & Payables

	As at 31 December								
	2003	2004	2005	2003	2004	2005	2003	2004	2005
EUR million	Net Defined Benefit Plan Liability			Defined Benefit Plan Assets			Defined Benefit Plan Liabilities		
Present value of funded obligations	930.9	1 054.4	1 534.7	285.4	536.5	1 248.9	645.5	517.9	285.8
Present value of unfunded obligations	1 022.4	872.2	738.9	20.1	25.4	42.8	1 002.3	846.8	696.1
Defined Benefit Obligations ("DBO")	1 953.3	1 926.6	2 273.6	305.5	561.9	1 291.7	1 647.8	1 364.7	981.9
Fair value of plan assets	-700.7	-853.7	-1 410.2	-285.4	-536.5	-1 142.0	-415.3	-317.2	-268.2
Net Liability in Defined Benefit Plans	**1 252.6**	**1 072.9**	**863.4**	**20.1**	**25.4**	**149.7**	**1 232.5**	**1 047.5**	**713.7**
Unrecognised actuarial gains and losses	-465.1	-606.5	-632.8	-144.5	-195.7	-382.8	-320.6	-410.8	-250.0
Unrecognised prior service cost	-	1.1	22.3	-	-	-8.0	-	1.1	30.3
(Asset) / Liability in the Balance Sheet	**787.5**	**467.5**	**252.9**	**-124.4**	**-170.3**	**-241.1**	**911.9**	**637.8**	**494.0**

Amounts Recognised in the Balance Sheet - Plans

	As at 31 December								
	2003	2004	2005	2003	2004	2005	2003	2004	2005
EUR million	Total Defined Benefit Plans			Defined Benefit Pension Plans			Other Post-Employment Benefits		
Present value of funded obligations	930.9	1 054.4	1 534.7	923.2	1 018.6	1 505.6	7.7	35.8	29.1
Present value of unfunded obligations	1 022.4	872.2	738.9	625.6	573.3	398.2	396.8	298.9	340.7
Defined Benefit Obligations ("DBO")	1 953.3	1 926.6	2 273.6	1 548.8	1 591.9	1 903.8	404.5	334.7	369.8
Fair value of plan assets	-700.7	-853.7	-1 410.2	-693.4	-818.4	-1 381.1	-7.3	-35.3	-29.1
Net Liability in Defined Benefit Plans	**1 252.6**	**1 072.9**	**863.4**	**855.4**	**773.5**	**522.7**	**397.2**	**299.4**	**340.7**
Unrecognised actuarial gains and losses	-465.1	-606.5	-632.8	-263.7	-418.2	-420.6	-201.4	-188.3	-212.2
Unrecognised prior service cost	-	1.1	22.3	-8.4	-11.7	-12.1	8.4	12.8	34.4
Net Liability in the Balance Sheet	**787.5**	**467.5**	**252.9**	**583.3**	**343.6**	**90.0**	**204.2**	**123.9**	**162.9**

Amounts Recognised in the Income Statement

	Year Ended 31 December								
	2003	2004	2005	2003	2004	2005	2003	2004	2005
EUR million	Total Defined Benefit Plans			Defined Benefit Pension Plans			Other Post-Employment Benefits		
Current service cost	42.5	46.6	45.3	35.0	38.1	37.1	7.5	8.5	8.2
Interest cost	99.5	95.6	104.6	78.9	73.5	85.8	20.6	22.1	18.8
Expected return on plan assets	-37.8	-69.3	-74.3	-36.9	-67.5	-72.8	-0.9	-1.8	-1.5
Net actuarial losses recognised in year	32.9	-41.6	30.7	27.3	20.1	23.9	5.6	-61.7	6.8
Settlements / TEL adjustment	-	-180.8	-28.7	-	-180.8	-28.7	-	-	-
Loss curtailment	-1.2	-	-	0.2	-	-	-1.4	-	-
Total Included in Personnel Expenses	**135.9**	**-149.5**	**77.6**	**104.5**	**-116.6**	**45.3**	**31.4**	**-32.9**	**32.3**

Benefit Plan Reconciliation

	As at 31 December								
	2003	2004	2005	2003	2004	2005	2003	2004	2005
EUR million	Total Defined Benefit Plans			Defined Benefit Pension Plans			Other Post-Employment Benefits		
Net liability at 1 January	755.6	787.5	467.5	523.9	583.3	343.6	231.7	204.2	123.9
Translation difference	-10.0	-0.6	-17.0	27.3	14.3	-37.2	-37.3	-14.9	20.2
Acquisition	1.3	0.3	7.7	1.3	-	7.7	-	0.3	-
Net expense in Income Statement	135.9	-149.5	77.6	104.5	-116.6	45.3	31.4	-32.9	32.3
Contributions paid	-103.7	-160.8	-283.2	-82.1	-128.0	-270.2	-21.6	-32.8	-13.0
Settlements	8.4	-9.4	0.3	8.4	-9.4	0.8	-	-	-0.5
Net Liability in the Balance Sheet	**787.5**	**467.5**	**252.9**	**583.3**	**343.6**	**90.0**	**204.2**	**123.9**	**162.9**

Defined Benefit Plans: Country Assumptions Used in Calculating Benefit Obligations

	Year Ended 31 December									
	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005
	Canada		Finland		Germany		Sweden		USA	
Discount rate %	6.3	5.3	5.0	4.1	5.2	4.3	5.5	4.0	5.8	5.8
Expected return on plan assets %	7.5	7.0	5.0	4.1	4.5	4.0	n/a	5.0	8.0	8.0
Future salary increase %	2.0	2.0	5.0	4.0	2.5	2.3	3.0	3.0	5.0	4.5
Future pension increases %	2.0	0.0	2.3	2.1	1.5	1.5	2.0	2.0	0.0	0.0
Expected average remaining working years of staff	14.7	14.4	13.0	9.0	12.5	12.5	13.0	14.0	12.0	11.6

Benefit Plan Summary by Country

	As at 31 December 2005						
EUR million	Canada	Finland	Germany	Sweden	USA	Other	Total
Present value of funded obligations	213.6	99.9	7.4	254.6	672.3	286.9	1 534.7
Present value of unfunded obligations	24.6	-	290.8	15.5	366.3	41.6	738.8
Defined Benefit Obligations (“DBO”)	238.2	99.9	298.2	270.1	1 038.6	328.5	2 273.5
Fair value of plan assets	-205.0	-41.5	-2.9	-214.2	-672.3	-274.3	-1 410.2
Net Liability in Defined Benefit Plans	**33.2**	**58.4**	**295.3**	**55.9**	**366.3**	**54.2**	**863.3**
Unrecognised actuarial gains and losses	-46.9	-60.8	-27.2	-58.1	-430.2	-9.5	-632.7
Unrecognised prior service cost	-9.5	-	-	1.1	34.5	-3.8	22.3
Net Liability / (Asset) in the Balance Sheet	**-23.2**	**-2.4**	**268.1**	**-1.1**	**-29.4**	**40.9**	**252.9**
Represented by							
Defined Benefit Pension Plans	-34.9	-2.4	268.1	-1.1	-173.8	34.1	90.0
Other Post-Employment Benefits	11.7	-	-	-	144.4	6.8	162.9
Net Liability / (Asset) in the Balance Sheet	**-23.2**	**-2.4**	**268.1**	**-1.1**	**-29.4**	**40.9**	**252.9**

Benefit Plan Summary by Country

	As at 31 December 2004						
EUR million	Canada	Finland	Germany	Sweden	USA	Other	Total
Present value of funded obligations	158.5	257.8	5.7	-	571.9	60.5	1 054.4
Present value of unfunded obligations	18.5	-	256.0	247.2	313.7	36.8	872.2
Defined Benefit Obligations (“DBO”)	177.0	257.8	261.7	247.2	885.6	97.3	1 926.6
Fair value of plan assets	-153.7	-68.9	-2.9	-	-571.9	-56.3	-853.7
Net Liability in Defined Benefit Plans	**23.3**	**188.9**	**258.8**	**247.2**	**313.7**	**41.0**	**1 072.9**
Unrecognised actuarial gains and losses	-36.8	-167.4	-1.7	-26.9	-367.9	-5.8	-606.5
Unrecognised prior service cost	-	-	-	1.1	-	-	1.1
Net Liability / (Asset) in the Balance Sheet	**-13.5**	**21.5**	**257.1**	**221.4**	**-54.2**	**35.2**	**467.5**
Represented by							
Defined Benefit Pension Plans	-23.0	21.5	257.1	221.4	-161.8	28.4	343.6
Other Post-Employment Benefits	9.5	-	-	-	107.6	6.8	123.9
Net Liability / (Asset) in the Balance Sheet	**-13.5**	**21.5**	**257.1**	**221.4**	**-54.2**	**35.2**	**467.5**

Net interest-bearing liabilities are designated as such on the Balance Sheet and amounted to EUR 5 084.1 (EUR 3 051.4) million at 31 December 2005; most of this net liability is represented by non-current debt. Net interest-bearing liabilities increased by EUR 2 032.7 million in 2005, mainly due to a weak cashflow, share buy-backs and acquisitions, but declined by EUR 867.6 million in 2004. Acquisitions in the year increased net debt by EUR 652.5 (EUR 141.2) million, mainly in respect of the Schneidersöhne acquisition, where the equity purchase price and net debt came to EUR 441.6 million. One minor disposal in 2005 had no effect on net debt, but in 2004 the sole disposal of Bergvik Skog AB reduced debt by EUR 1 494.1 million. Share buy-backs in 2005 increased debt by EUR 344.7 (EUR 198.6) million, dividends by EUR 365.3 (EUR 375.7) million and CTA (foreign exchange movements) by EUR 353.2 (EUR -158.6) million.

In January 2005 Stora Enso Oyj signed a five year EUR 1.75 billion multi-currency revolving credit facility at 0.275% over Euribor, which replaced a previous EUR 2.5 billion facility signed in 2003. In May the Company issued a three-year SEK 2 billion benchmark bond and in June a five-year EUR 0.5 billion benchmark bond paying fixed interest of 3.25%, both bonds being issued to enhance the Group debt structure and take advantage of favourable market conditions.

In December 2004 Stora Enso Oyj issued a five year SEK 4.3 billion bond paying a fixed coupon of 3.875%.

In June 2004 the Group created a new ten year bond by offering to exchange its existing EUR 850 million 2007 bond; EUR 475 million of notes were exchanged, 55.9% of the total, the transaction extending the average maturity of all debt by one year.

Borrowings have various maturities, the latest being in 2024, and have either fixed or floating interest rates ranging from 1.0% (1.0%) to 10.0% (9.99%). The majority of Group loans are denominated in Euros, the principal other currencies being Swedish Kronas and US Dollars. At 31 December 2005 the Group's unused committed credit facilities totalled EUR 1 750.0 (EUR 2 712.7) million, of which EUR 0.0 (EUR 0.0) million was classified as short-term.

In 2005 Stora Enso bought back bonds with a nominal value of SEK 410 (EUR 43.7) million, resulting in a loss in financial items of SEK 35.7 (EUR 3.8) million.

In 2004 Stora Enso bought back bonds with a nominal value of SEK 469 (EUR 52.6) million, resulting in a loss in financial items of SEK 1 (EUR 0.1) million.

In 2003 Stora Enso bought back bonds with a nominal value of SEK 110 (EUR 12.1) million at par and EUR 22.1 million resulting in a loss of EUR 0.7 million.

The breakdown of net interest-bearing liabilities and operating capital by principal country/area is detailed below:

Country/Area Breakdown

	As at 31 December					
	2003	2004	2005	2003	2004	2005
EUR million	Net interest-bearing Liabilities			Operating Capital		
Euro area	975.1	1 950.7	3 263.3	6 215.8	6 278.9	6 622.3
Sweden	1 183.7	-131.4	369.7	3 630.4	2 131.6	2 635.9
USA	1 515.7	1 131.7	1 333.1	2 457.1	2 346.8	2 541.3
Canada	19.4	29.5	-61.3	492.5	476.2	330.4
China	129.2	107.8	101.9	157.2	147.0	201.2
UK	-22.5	-34.3	-22.9	18.9	2.8	1.1
Other	118.4	-2.6	100.3	555.6	766.2	1 045.7
Total	**3 919.0**	**3 051.4**	**5 084.1**	**13 527.5**	**12 149.5**	**13 377.9**

Long-term Debt

	As at 31 December					
	2003	2004	2005	2003	2004	2005
EUR million	Repayable within 12 Months			Repayable after 12 Months		
Bond loans	232.9	3.9	283.6	2 689.6	2 762.4	3 287.7
Loans from credit institutions	117.5	92.7	92.6	535.9	400.5	884.9
Financial lease liabilities	3.8	5.0	8.6	171.2	158.5	176.1
Other long-term liabilities	5.3	0.5	0.2	7.9	6.7	5.2
Total Long-term Debt	**359.5**	**102.1**	**385.0**	**3 404.6**	**3 328.1**	**4 353.9**

Repayment Schedule of Long-term Debt

EUR million	As at 31 December 2006	2007	2008	2009	2010	2011+	Total
Bond loans	283.6	510.2	275.7	558.8	523.5	1 419.5	3 571.3
Loans from credit institutions	92.6	212.0	288.4	84.2	81.9	218.4	977.5
Financial lease liabilities	8.6	9.3	10.2	10.1	0.4	146.1	184.7
Other long-term liabilities	0.2	2.7	0.4	0.2	0.3	1.6	5.4
Total Long-term Debt	**385.0**	**734.2**	**574.7**	**653.3**	**606.1**	**1 785.6**	**4 738.9**
Current Liabilities: Repayable within the next 12 months							**385.0**
Non-current Liabilities: Repayable after 12 months							**4 353.9**

Due to the short-term nature of most Group financial liabilities, their carrying value is considered to approximate their fair value. However, the fair value of non-current term debt, exclusive of the current part, has a value of EUR 4 584.4 (EUR 3 600.9) million as against a carrying value of EUR 4 353.9 (EUR 3 328.1) million.

Bonds Loans in Non-current Debt

Issue / Maturity Dates	Description Of Bond	Interest Rate %	Currency Of Bond	Nominal Value Issued 2005 (Currency million)	Outstanding As at 31 December 2004 (Currency million)	Outstanding As at 31 December 2005 (Currency million)	Carrying Value As at 31 December 2004 (EUR million)	Carrying Value As at 31 December 2005 (EUR million)
Fixed Rate								
1991–2006	Series C Senior Notes 2006 *	9.99	USD	50.4	30.1	22.9	22.1	19.4
1993–2019	Series C Senior Notes 2019 *	8.60	USD	50.0	50.0	50.0	36.7	42.5
1996–2006	Swedish Medium Term Note *	7.90	SEK	470	309	309	34.4	33.0
1997–2007	Senior Notes Series B 2007	6.82	USD	102.0	102.0	102.0	75.2	87.2
1997–2009	Senior Notes Series C 2009	6.90	USD	48.5	48.5	48.5	35.0	40.6
1997–2012	Senior Notes Series D 2012	7.00	USD	22.5	22.5	22.5	16.3	18.9
1997–2017	Senior Notes Series E 2017	7.14	USD	23.0	23.0	23.0	16.1	18.6
1997–2017	Euro Medium Term Note *	4.105	JPY	10 000	10 000	10 000	71.6	72.0
1998–2009	Senior Notes Series F 2009	6.93	USD	30.0	30.0	30.0	21.6	25.0
1998–2018	Senior Notes Series G 2018	7.24	USD	65.0	65.0	65.0	44.6	51.8
1998–2023	Senior Notes Series H 2023	7.30	USD	65.0	65.0	65.0	43.8	50.9
1999–2006	Swedish Medium Term Note *	5.90	SEK	500	43	43	4.8	4.5
1999–2008	Swedish Fixed Real Rate *	4.00	SEK	105	100	40	11.5	4.4
2000–2006	Euro Medium Term Note * 1)	6.25	SEK	2 000	2 000	2 000	31.9	19.0
2000–2007	Euro Bond 6.375% Notes 2007 *	6.375	EUR	850.0	374.6	374.6	372.6	373.2
2000–2007	Euro Medium Term Note *	6.90	SEK	200	200	200	22.2	21.3
2001–2006	Euro Medium Term Note *	6.25	SEK	2 000	2 000	2 000	218.9	209.4
2001–2011	Global 7.375% Notes 2011 *	7.375	USD	750.0	750.0	750.0	588.0	667.0
2004–2014	Euro Medium Term Note *	5.125	EUR	517.6	517.6	517.6	492.7	494.8
2004–2009	Swedish Medium Term Note *	3.875	SEK	4 640	4 300	4 640	474.1	492.9
2005–2010	Euro Medium Term Note *	3.25	EUR	500.0	-	500.0	-	499.1
Loans matured and extinguished in 2005							27.3	-
Total Fixed Rate Bond Loans							**2 661.4**	**3 245.5**
Floating Rate								
1997–2007	Euro Medium Term Note *	Libor+0.35	EUR	110.0	110.0	110.0	18.5	18.5
1998–2008	Euro Medium Term Note *	Libor+0.35	USD	30.0	30.0	30.0	22.0	25.4
1998–2008	Euro Medium Term Note *	Libor+0.33	USD	40.0	40.0	40.0	29.4	33.9
2000–2007	Swedish Medium Term Note *	Euribor+0.75	EUR	10.0	10.0	10.0	10.0	10.0
2000–2010	Euro Medium Term Note *	Euribor+0.8	EUR	25.0	25.0	25.0	25.0	25.0
2005–2008	Swedish Medium Term Note *	Stibor+0.28	SEK	2 000	-	2 000	-	213.0
Total Floating Rate Bond Loans							**104.9**	**325.8**
Total Bond Loans							**2 766.3**	**3 571.3**

* Parent company liabilities

1) SEK 2 000 million is legally outstanding, but the Company holds Notes to the value of SEK 1 822 million leaving SEK 178 million held externally.

Interest-bearing Liabilities

EUR million	As at 31 December 2003	2004	2005
Current loans	929.1	543.3	1 258.3
Derivative financial instruments (see Note 25)	-19.1	54.1	86.7
US finance lease terminal liability (see below and Note 8)	500.1	-	-
	1 410.1	**597.4**	**1 345.0**

The US finance lease liability in 2003 consisted of EUR 446.2 of principal and a provision of EUR 53.9 for termination costs.

Group short-term loans are principally denominated in euros, 62.0% (50.9%), Swedish kronas, 31.8% (34.4%) and Chinese renminbi, 5.7% (12.8%), with maturities of between 2 days and 12 months. Short-term loans also include commercial paper with applicable weighted average interest rates of 2.2% (2.2%).

Finance Lease Liabilities

At 31 December 2005 Stora Enso had a small number of finance leasing agreements for machinery and equipment for which capital costs of EUR 125.9 (EUR 126.5) million were included in machinery and equipment; the depreciation thereon was EUR 10.1 (EUR 10.7) million. The aggregate leasing payments for the year amounted to EUR 21.9 (EUR 17.4) million, the interest element being EUR 14.4 (EUR 17.3) million. No new leasing commitments were entered into in 2005 and 2004, however in 2003 a new leasing commitment of EUR 21.5 million relating to buildings was incurred by the Danish merchant subsidiary.

No finance leases were closed out in 2005 and 2004, however in 2003 the principal lease liability consisted of a portfolio of 1996 UK finance leases to finance PM16 at Wisconsin Rapids and PM26 at Biron, but by 31 December 2003 Stora Enso North America Inc. was in the process of terminating these leases as a consequence of changes in the interpretation of UK leasing tax rules (see Note 8). All amounts due under these leases were no longer shown under Finance Lease Liabilities, but were instead shown on the Balance Sheet under current Interest-bearing Liabilities; see above. The transaction was closed on 2 March 2004 when USD 650.5 (EUR 522.9) million was passed over in full and final settlement.

Finance Lease Liabilities

EUR million	As at 31 December 2003	2004	2005
Minimum lease payments			
Less than 1 year	19.3	17.4	21.9
1–2 years	21.7	17.4	21.8
2–3 years	17.8	17.4	21.7
3–4 years	17.8	17.4	21.1
4–5 years	17.8	17.4	10.5
Over 5 years	222.6	176.0	188.3
	317.0	263.0	285.3
Future finance charges	-142.0	-99.5	-100.6
Present Value of Finance Lease Liabilities	**175.0**	**163.5**	**184.7**
Present Value of Finance Lease Liabilities			
Less than 1 year	3.8	5.0	8.6
1–2 years	4.3	7.3	9.3
2–3 years	6.4	9.0	10.2
3–4 years	8.1	10.1	10.1
4–5 years	9.2	10.3	0.4
Over 5 years	143.2	121.8	146.1
	175.0	**163.5**	**184.7**

Other Provisions

EUR million	Environmental	Reorganisation	Other Obligatory	Total Provisions
Carrying value at 1 January 2004	**47.2**	**48.6**	**31.8**	**127.6**
Translation difference	0.1	-1.5	0.1	-1.3
Reclassification	-	4.6	-4.6	-
Disposals	-	-	-14.7	-14.7
Charge in Income Statement				
New provisions	2.7	6.2	-	8.9
Increase in existing provisions	1.3	3.1	3.8	8.2
Reversal of existing provisions	-	-1.1	-0.2	-1.3
Payments	-5.9	-28.9	-11.0	-45.8
Carrying Value at 31 December 2004	**45.4**	**31.0**	**5.2**	**81.6**
Translation difference	-1.1	2.0	-	0.9
Emission Rights	-	-	36.4	36.4
Acquisitions	-	-	2.5	2.5
Charge in Income Statement				
New provisions	3.6	143.0	0.5	147.1
Increase in existing provisions	1.4	3.1	0.2	4.7
Reversal of existing provisions	-	-4.2	-0.2	-4.4
Payments	-5.2	-25.1	-1.2	-31.5
Carrying Value at 31 December 2005	**44.1**	**149.8**	**43.4**	**237.3**
Allocation between Current and Non-current Liabilities				
Current Liabilities: Payable within 12 months	40.8	60.8	41.0	142.6
Non-current Liabilities: Payable after 12 months	3.3	89.0	2.4	94.7
Total at 31 December 2005	**44.1**	**149.8**	**43.4**	**237.3**
Current Liabilities: Payable within 12 months	3.0	15.3	2.4	20.7
Non-current Liabilities: Payable after 12 months	42.4	15.7	2.8	60.9
Total at 31 December 2004	**45.4**	**31.0**	**5.2**	**81.6**

Environmental Remediation

Provision for environmental remediation amounted to EUR 44.1 (EUR 45.4) million at 31 December 2005 and largely related to the removal of mercury and other contaminants from sites in Sweden and Finland; details of the principal provisions are:

- Following an agreement between Stora Enso and the City of Falun, the Group is obliged to clean-up pollution to the area caused by the Kopparberg mine; the provision amounted to EUR 9.5 (EUR 9.9) million.
- A provision of EUR 6.6 (EUR 7.8) million has been made for removing mercury from the harbour basin at Skutskär.
- The site of Skoghall Mill contains ground pollutants that must be eliminated, the provision for which amounts to EUR 8.5 (EUR 9.0) million.
- There are a further four cases in Finland where the total provision amounts to EUR 11.2 (EUR 9.8) million; the largest relates to pollution in the vicinity of Pateniemi Sawmill, being EUR 5.0 (EUR 5.0) million.

Other Obligatory Provisions

Emission Rights of EUR 36.4 million represents the rights granted to the Group which need to be surrendered to the authorities on 1 April 2006 to cover the actual emissions made in 2005. Rights granted but not used of EUR 7.3 million appear in Non-current Operative Liabilities (Note 24).

Other Obligatory Provisions in 2004 amounted to EUR 5.2 million, the comparative 2005 figure excluding Emission Rights being EUR 7.0 million. A provision in Sweden of EUR 14.7 million relating to statutory forest replanting was disposed of with the divestment of Bergvik Skog AB in 2004.

Reorganisation Provisions

In April the Group announced a profit improvement programme (“Profit 2007”) with the aim to increase annual profits before tax by EUR 300 million, mainly in Europe, to be achieved from mid 2007 onwards. In addition to this, the Group announced the Asset Performance Review (“APR”) program in October, which would reduce capacity by about 400 000 tonnes in the short term and strengthen the Group’s financial performance. The total restructuring provision relating to these initiatives was EUR 134.9 million. Other minor restructuring provisions totaled EUR 7.0 million, mainly relating to earlier restructuring plans.

Publication Paper

The total restructuring provision was EUR 71.3 million, of which EUR 62.1 million related to redundancy plans for 760 employees in various mills and EUR 8.1 million to dismantling costs of paper machines to be closed and the termination of rental agreements. The redundancies will be executed by the end of March 2007.

A major restructuring provision was recorded at Corbehem Mill in France, where it was decided to close Paper Machine ("PM") 3 and PM4 at by the end of June 2006. Other significant provisions were recorded at Reisholz Mill and at Wolfsheck Mill in Germany due to redundancies to be made by the end of June 2006.

Fine Paper
The total restructuring provision was EUR 26.6 million of which EUR 23.7 million was due to the planned redundancies of 240 employees, mainly at Berghuizer Mill in the Netherlands, at Uetersen Mill in Germany, at Varkaus Mill in Finland and at Celbi Pulp Mill in Portugal. The redundancies will mainly be executed by the end of December 2006, however certain plans will continue until the end of 2007.

All the mills in which provisions were recorded are included in the APR programme due to either a machine closure (Varkaus PM1), planned divestment (Celbi Pulp Mill) or poor profitability track records (Uetersen and Berghuizer mills).

Merchants
The total restructuring provision was EUR 3.9 million, of which EUR 3.6 million related to redundancy plans covering 110 employees, mainly in the Netherlands, Hungary, Germany and France. The redundancies will mainly be achieved by the end of December 2006, but certain plans will continue until late 2007.

Packaging Boards
The total restructuring provision of EUR 21.0 million related to redundancy plans for 410 employees, mainly at Hammarby and Skoghall mills in Sweden, at Imatra, Kotka, Heinola and Pankakoski mills in Finland, at Uetersen in Germany and at Stevens Point in the USA. The redundancies will be executed mainly by the end of June 2006, though certain plans will continue until the end of 2007.

The provision recorded in Hammarby Mill is related to plans to close the mill by the end of June 2006; in Stevens Point Mill the provision covers the closure of PM31 by the end of March 2006. Other provisions are made to secure the mills' long-term competitiveness.

Wood Products
The total restructuring provision of EUR 2.4 million related to the redundancy of 218 employees, mainly in Finnish and Swedish sawmills. The redundancies will be executed mainly by the end of June 2006; however certain plans will continue until the end of 2006.

Wood Supply
The total restructuring provision of EUR 3.3 million covered the proposed redundancies of 85 employees in Finland and Sweden, to be completed by June 2007.

Other Operations
The total restructuring provision amounted to EUR 13.4 million, of which EUR 7.9 million related to redundancy plans for 90 employees, mainly in Corporate Sales Network and in certain corporate staff functions. Most of the redundancies will be achieved by June 2007.

The Group Restructuring Provisions at 31 December 2004 and 2003 amounted to EUR 31.0 million and EUR 48.6 million respectively, with charges in the Income Statement of EUR 8.2 million and EUR 53.2 million. The 2003 costs mainly affected the North American operations, with EUR 29.5 million, and EUR 15.3 million at Corbehem Mill, both charges principally covering redundancy costs. Restructuring charges were not material in 2004, though a further provision of EUR 4.4 million was made in the USA for redundancies.

Note 24 Operative Liabilities

Non-current Operative Liabilities

	As at 31 December		
EUR million	**2003**	**2004**	**2005**
Provision for unrealised profit	44.2	120.7	117.7
Accruals	20.8	20.4	23.4
Share-based payments:			
Options (Note 29)	20.8	20.8	30.5
Emission Rights: Deferred income	-	-	7.3
Other payables	12.7	12.1	25.8
Total	**98.5**	**174.0**	**204.7**

The provision for unrealised profit relates to that part of the gains on sale of Tornator Timberlands Oy in 2002 and Bergvik Skog AB in 2004 that were deemed to relate to the proportion of shares retained in these new Associates, being EUR 44.2 and EUR 73.5 (SEK 690) million respectively.

The deferred income relating to emissions represents those rights that have been issued but remain unused at the year end as Group carbon dioxide levels were below the grant amount.

Current Operative Liabilities

	As at 31 December		
EUR million	**2003**	**2004**	**2005**
Advances received	21.0	5.5	3.6
Trade payables	770.6	849.1	962.4
Other payables	196.6	191.7	226.1
Accrued liabilities and deferred income	519.6	606.1	688.6
Current portion of provisions	30.5	20.7	94.7
Total	**1 538.3**	**1 673.1**	**1 975.4**

Accrued liabilities and deferred income consist mainly of personnel costs, customer discounts, and other accruals.

Shareholders' Equity - Other Comprehensive Income ("OCI")
Certain derivatives are designated as cash flow hedges and measured to fair value with the fair value movements being recorded in the separate equity category of OCI: Hedging Reserve. The other component of OCI is the Available-for-Sale Reserve, representing the difference between the fair value of investments and their cost (see Note 15). Movements in the year for these two reserves, together with the balances at the year end, are as shown below.

OCI Reserves

	Hedging Reserve				Available-	Total
EUR million	Currency Derivatives	Commodity Hedges	Associate Hedge	Total	for-Sale Reserve	OCI Reserves
OCI at 1 January 2004	7.8	50.4	-	**58.2**	56.4	**114.6**
Net Change in OCI in the year	7.9	-34.3	-19.0	**-45.4**	-1.6	**-47.0**
OCI at 31 December 2004	**15.7**	**16.1**	**-19.0**	**12.8**	**54.8**	**67.6**
OCI at 1 January 2005						
Gains and losses from changes in fair value	22.1	23.9	-19.0	**27.0**	83.0	**110.0**
Deferred taxes	-6.4	-7.8	-	**-14.2**	-28.2	**-42.4**
	15.7	**16.1**	**-19.0**	**12.8**	**54.8**	**67.6**
Net Change in OCI in 2005						
Gains and losses from changes in fair value	-25.7	105.6	1.7	**81.6**	352.5	**434.1**
Deferred taxes	7.5	-28.6	0	**-21.1**	-12.6	**-33.7**
	-18.2	**77.0**	**1.7**	**60.5**	**339.9**	**400.4**
OCI at 31 December 2005						
Gains and losses from changes in fair value	-3.6	129.5	-17.3	**108.6**	435.5	**544.1**
Deferred taxes	1.1	-36.4	-	**-35.3**	-40.8	**-76.1**
Total	**-2.5**	**93.1**	**-17.3**	**73.3**	**394.7**	**468.0**

The gain on derivative financial instruments designated as cash flow hedges that was realised from OCI through the Income Statement amounted to EUR 12.8 (EUR 67.4) million.

The hedging reserve includes the Group's 43.3% (43.3%) share in an interest rate swap showing a deferred loss of EUR 17.3 (EUR 19.0) million in respect of Stora Enso's Associate, Bergvik Skog AB. This amount relates to a fair value loss on Bergvik Skog AB's cashflow hedge accounted interest rate swap and, has been deducted from the equity accounted value of the Group interest in its Associate.

The estimated net amount of unrealised gains and losses expected to be reclassified as earnings within the next twelve months amounted to EUR 69.1 (EUR 23.0) million, of which EUR -3.6 (EUR 22.1) million related to currencies and EUR 72.7 (EUR 0.9) million to commodities.

Fair Values of Financial Instruments
Derivative financial instruments are recorded on the Balance Sheet at their fair values, defined as the amount at which the instrument could be exchanged between willing parties in a current transaction, other than in a liquidation or forced sale. The fair values of such financial items have been estimated on the following basis:

- Currency option contract values are calculated using year end market rates together with common option pricing models, the fair values being implicit in the resulting carrying amounts.
- The carrying amounts of foreign exchange forward contracts are calculated using year end market rates and thus they approximate fair values.
- The fair values of interest rate swaps have been calculated using a discounted cash flow analysis.
- Swaption contract fair values are calculated using year end interest rates together with common option pricing models, the fair values being implicit in the resulting carrying amounts.
- Cross currency swaps are fair valued against discounted cash flow analysis and year end foreign exchange rates.
- The fair values of interest rate futures have been calculated by using either discounted cash flow analysis or quoted market prices on future exchanges, the carrying amounts approximating fair values.
- Commodity contract fair values are computed with reference to quoted market prices on future exchanges and thus the carrying amounts approximate fair values.
- The fair values of commodity options are calculated using year end market rates together with common option pricing models, the fair values being implicit in the resulting carrying amounts.
- The fair values of Total Return (Equity) Swaps are calculated using year end equity prices as well as year end interest rates.
- The Group had no outstanding embedded derivatives at either 31 December 2003, 2004 or 2005.

Certain gains and losses on financial instruments are taken directly to equity, either to offset Cumulative Translation Adjustments (CTA) or deferred under Other Comprehensive Income (OCI). The remaining fair value movements are taken to the Income Statement as Net Financial Items (Note 8) as shown below.

Fair Value Hedge Gains and Losses

EUR million	Year Ended 31 December 2003	2004	2005
Net gains on qualifying hedges	-24.3	-10.2	-33.5
Fair value changes in hedged items	14.5	23.8	34.3
Net gains / losses	-9.8	13.6	0.8
Net losses / gains on non-qualifying hedges	-11.2	-6.4	-18.6
Net gains / losses on Total Return (Equity) Swaps	20.8	24.9	9.7
Net Fair Value Gains in Net Financial Items	**-0.2**	**32.1**	**-8.1**

Cash Flow Hedges Not Qualifying for Hedge Accounting

EUR million	Year Ended 31 December 2003	2004	2005
FX forward contacts	13.7	-0.5	0.6
Commodity contracts	2.6	-0.9	-0.5
Total Hedging Ineffectiveness	**16.3**	**-1.4**	**0.1**

Nominal Values of Derivative Financial Instruments

EUR million	As at 31 December 2003	2004	2005
Interest Rate Derivatives			
Interest rate swaps			
Maturity under 1 year	113.7	66.5	620.1
Maturity 2–5 years	1 080.4	953.4	1 000.6
Maturity 6–10 years	1 439.2	1 469.9	1 738.3
	2 633.3	2 489.8	3 359.0
Interest rate options	23.8	198.4	673.8
Total	**2 657.1**	**2 688.2**	**4 032.8**
Foreign Exchange Derivatives			
Cross-currency swap agreements	129.5	102.7	72.3
Forward contracts	3 112.5	2 479.8	2 442.1
Currency options	208.1	588.3	1 071.3
Total	**3 450.1**	**3 170.8**	**3 585.7**
Commodity Derivatives	**477.0**	**442.7**	**391.0**
Equity Swaps	**308.4**	**359.5**	**408.5**

Fair Values of Derivative Financial Instruments

	As at 31 December				
	2003	2004	2005		
EUR million	Net Fair Values	Net Fair Values	Positive Fair Values	Negative Fair Values	Net Fair Values
Interest rate swaps	106.8	151.3	121.9	-33.8	88.1
Interest rate options	0.5	1.0	1.4	-3.3	-1.9
Cross currency swaps	-11.0	-11.6	-	-6.5	-6.5
Forward contracts	172.8	89.5	7.4	-37.9	-30.5
Currency options	0.7	1.8	4.5	-10.2	-5.7
Commodity contracts	71.5	23.6	134.3	-4.7	129.6
Equity swaps	-36.0	-11.4	27.5	-29.3	-1.8
Total	**305.3**	**244.2**	**297.0**	**-125.7**	**171.3**

Positive and negative fair values of financial instruments are shown under Interest-bearing Receivables and Liabilities and Long-term Debt.

Note 26 Cumulative Translation Adjustment ("CTA") and Equity Hedging

The Group operates internationally and is thus exposed to currency risk arising from exchange rate fluctuations on the value of its net investment in non-Euro Area foreign subsidiaries and associates. Exchange differences, arising from the translation of equity, results and dividends for foreign subsidiary and associate undertakings, are aggregated with the financial instruments hedging these investments and the net is recorded directly in shareholders' equity as CTA; this is expensed though the Income Statement on the divestment of a foreign entity.

Cumulative Translation Adjustment

	Year Ended 31 December		
EUR million	**2003**	**2004**	**2005**
At 1 January			
CTA on net investment in non-Euro foreign entities	-484.1	-629.1	-708.2
Hedging	339.7	432.0	489.3
	-144.4	**-197.1**	**-218.9**
CTA Movement for the Year			
Restatement of opening non-euro denominated equity	-156.7	-37.8	256.1
Difference in Income Statement translation	21.2	14.7	-16.8
Internal equity injections less dividends	-17.6	-44.6	6.9
Other	-3.4	0.3	-5.6
	-156.5	-67.4	240.6
Hedging of Net Investment for the Year			
Hedging result	146.2	78.3	-201.4
Taxes	-42.4	-21.0	52.4
	103.8	57.3	-149.0
Income Statement			
CTA on divested non-Euro foreign entities	11.5	-11.7	0.2
Hedging result allocated to divested entities	-11.5	-	-
(Gain) in Income Statement for the year	-	-11.7	0.2
At 31 December			
CTA on net investment in non-Euro foreign entities	-629.1	-708.2	-467.4
Hedging (see below)	432.0	489.3	340.3
	-197.1	**-218.9**	**-127.1**

Hedging of Net Investment in Foreign Entities			
Realised gains	159.7	209.5	168.2
Unrealised gains (see next page)	272.3	279.8	172.1
Total	**432.0**	**489.3**	**340.3**

Hedging of Net Investment in Foreign Entities

Group policy for translation risk exposure is to minimise this by funding assets, whenever possible and economically viable, in the same currency, but if matching of the assets and liabilities in the same currency is not possible, hedging of the remaining translation risk may take place. The gains and losses, net of tax, on all financial liabilities and instruments used for hedging purposes, are offset in CTA against the respective currency movements arising from the restatement of the net investments at current exchange rates on the Balance Sheet date; the net amount of gains and losses included in CTA during the period as shown above came to EUR -149.0 (EUR 57.3) million. Details of the hedging and the unrealised hedging gains are shown below, details of the net investment in foreign subsidiaries being shown in the Segment Note 4.

Hedging Instruments & Unrealised Hedge Gains

	As at 31 December								
	2003	2004	2005	2003	2004	2005	2003	2004	2005
Million	**Nominal amount (currency)**			**Nominal amount (EUR)**			**Unrealised Gain / Loss (EUR)**		
Forward Exchange Contracts									
Canada	750.0	700.0	587.0	462.0	426.4	427.7	27.9	16.0	-11.6
Czech Republic	-	-	3 525	-	-	121.5	-	-	-2.2
Denmark	-	745.0	-	-	100.2	-	-	0.1	-
Sweden	4 345.0	-	-	478.5	-	-	4.1	-	-
UK	28.0	27.8	22.0	39.7	39.4	32.1	0.3	0.3	0.2
USA	-	350.0	86.0	-	257.0	72.9	-	17.5	-0.8
				980.2	823.0	654.2	32.3	33.9	-14.4
Borrowings									
Sweden	-	5 343.0	4 462	-	592.3	475.3	-	-6.5	11.4
USA	830.0	880.0	1 127.9	657.2	646.1	956.1	240.0	252.4	175.1
Total Hedging				**1 637.4**	**2 061.4**	**2 085.6**	**272.3**	**279.8**	**172.1**

Note 27 Commitments and Contingencies

Commitments

EUR million	As at 31 December 2003	2004	2005
On Own Behalf			
Pledges given [1]	3.8	0.8	1.1
Mortgages	103.5	118.8	212.8
On Behalf of Associated Companies			
Mortgages	0.8	0.8	0.8
Guarantees	48.4	209.3	359.3
On Behalf of Others			
Pledges given	2.2	-	-
Mortgages	10.9	-	-
Guarantees	13.1	6.8	13.7
Other Commitments, own			
Operating leases, in next 12 months	34.3	32.6	34.3
Operating leases, after next 12 months	171.2	159.2	148.0
Pension liabilities	3.0	2.2	0.7
Other contingencies	95.9	92.5	97.6
Total	**487.1**	**623.0**	**868.3**
Pledges given	6.0	0.8	1.1
Mortgages	115.2	119.6	213.6
Guarantees	61.5	216.1	373.0
Operating leases	205.5	191.8	182.3
Pension liabilities	3.0	2.2	0.7
Other contingencies	95.9	92.5	97.6
Total	**487.1**	**623.0**	**868.3**

(1) Pledged assets consist of marketable securities, inventories and fixed assets.

Other Contingencies include a contingent liability, relating to exposure to hazardous substances and environmental matters, pursuant to certain indemnification provisions granted in connection with the 1994 divestment of the Tarkett Group, the flooring business of the former Stora Kopparberg Bergslags AB. The Group's maximum aggregate liability under the hazardous substance indemnification is limited to USD 62.5 (EUR 53.0) million, under the on-site environmental indemnification, SEK 328 (EUR 34.9) million, and under the off-site environmental indemnification, without limit. One off-site indemnification matter is pending, but is expected to be closed shortly, and a further three on-site matters are outstanding. Stora Enso does not expect any further claims and estimates that the total liability for the environmental liabilities will not be material; however, the limitations period for claims to occur does not expire until 2024.

Purchase Agreement Commitments as at 31 December 2005

EUR million	Type of Supply	Country	Years Left	Contract Total	Scheduled Contract Payments 2006	2007–8	2009–10	2011+
Materials & Supplies								
Stora Enso Skog AB	Wood*	Sweden	13	1 555	126	247	240	942
Stora Enso Oyj	Wood*	Finland	7	349	49	100	100	100
Stora Enso Oyj	Gas	Finland	4	36	9	18	9	-
Stora Enso North America Corp	Electricity	US	8	75	4	19	23	29
Port Hawkesbury	Gas	Canada	6	82	20	18	30	14
Stora Enso Kabel GmbH & Co KG	Electricity	Germany	6	207	35	69	69	34
Stora Enso Corbehem SA	Electricity	France	5	107	34	36	37	-
Stora Enso Maxau	Steam	Germany	5	117	25	49	43	-
Stora Enso Reisholz GmbH & Co KG	Electricity	Germany	6	88	16	32	32	8
Stora Enso Kvarnsveden AB	Electricity	Sweden	9	153	17	34	34	68
Stora Enso Baienfurt GmbH & Co KG	Electricity	Germany	5	93	19	37	37	-
Stora Enso Transport & Distribution AB	Shipping	Sweden	9	74	8	16	16	34
Stora Enso Transport & Distribution AB	Shipping	Denmark	10	132	14	27	27	64
Stora Enso Oyj	Shipping	Sweden	15	217	9	26	26	156
Stora Enso Transport & Distribution Ltd	Terminal	UK	15	214	15	29	29	141
Others	-	-		574	253	155	44	122
				4 073	653	912	796	1 712
Capital Expenditure				95	85	10	-	-
Total Contractual Commitments				**4 168**	**738**	**922**	**796**	**1 712**

* Estimates based on current wood prices

Outstanding balances under binding Purchase Agreements amount to EUR 4 168 (EUR 4 362) million, of which contracts for materials and services amount to EUR 4 073 (EUR 3 868) million and for capital expenditure commitments, EUR 95 (EUR 494) million. The principal commitment for materials relate to wood supplied from the Group's forest Associates, Bergvik Skog AB and Tornator Timberland Oy and Group risk management of power supplies by entering into long-term fixed price contracts; the principal service commitments relate to shipping and terminal facilities. Stora Enso Oyj has also signed a 15 year take or pay contract with Nordsjöfrakt AB for the operation of ships between Finland and Sweden, thus the Group's commitment of EUR 217 million is also its contingent liability in the event of early termination. There are no material contracts for capital expenditure in 2005, the largest contract in 2004 being EUR 223 million for the new paper machine supplied to Kvarnsveden Mill in Sweden.

Guarantees are made in the ordinary course of business on behalf of associated companies and occasionally others; the guarantees, entered into with financial institutions and other credit guarantors, generally obligate the Group to make payment in the event of default by the borrower. The guarantees have off-Balance Sheet credit risk representing the accounting loss that would be recognised at the reporting date if counterparties failed to perform completely as contracted. The credit risk amounts are equal to the contract sums, assuming the amounts are not paid in full and are irrecoverable from other parties.

Stora Enso Oyj has guaranteed the liabilities of many of its subsidiaries up to a maximum of EUR 843.8 (EUR 748.5) million as of 31 December 2005. It has also guaranteed the indebtedness of its Brazilian Associate, Veracel, to various local and international banks, the amount outstanding at the year end being EUR 333.3 (EUR 181.1) million.

Stora Enso Oyj had guaranteed the pension liabilities of its Swedish subsidiaries at the time of the 1998 merger and as of 31 December 2004, this guarantee amounted to EUR 258.4 million. However in July 2005 the Group set up a foundation to deal with its Swedish pension liabilities and thus the amount outstanding under this guarantee was reduced to EUR 7.7 million at 31 December 2005. See Note 21.

Stora Enso Transport and Distribution AB, Sweden, has a time charter party with Wagenborg Scheepvaart B.V. of the Netherlands ("WSBV") concerning three vessels; WSBV has, in turn, chartered the three vessels from owners in Denmark. At the expiry of the three charter parties in 2015, Stora Enso Oyj has guaranteed to pay the owners an amount equal to the difference between the stipulated loss value and the net sale price obtained by the owners, however, always limited to 6/21 of the original facility amount. The maximum Group exposure under this guarantee amounted to EUR 32.8 (EUR 32.8) million at the year end.

The Group leases office and warehouse space under various non-cancellable operating leases, some of which contain renewal options. The future cost for contracts exceeding one year and for non-cancellable operating leasing contracts are:

Repayment Schedule of Operating Lease Commitments

EUR million	As at 31 December 2003	2004	2005
Less than 1 year	34.3	32.6	34.3
1–2 years	26.0	27.1	31.0
2–3 years	21.2	22.8	22.3
3–4 years	17.8	18.9	17.9
4–5 years	16.9	17.1	24.6
Over 5 years	89.3	73.3	52.2
	205.5	**191.8**	**182.3**

Contingent Liabilities
Stora Enso is party to legal proceedings that arise in the ordinary course of business and which primarily involve claims arising out of commercial law. The Group is also involved in administrative proceedings relating primarily to competition law. The Directors do not consider that liabilities related to such proceedings, before insurance recoveries, if any, are likely to be material to the Group financial condition or results of operations.

Competition Law Proceedings

- **Inspections By European and U.S. Competition Authorities and Class-action Lawsuits in the United States**
In May 2004 Stora Enso was subject to inspections carried out by the European Commission and the Finnish Competition Authority at certain locations in Europe and received subpoenas issued by the U.S. Department of Justice as part of preliminary anti-trust investigations into the paper industry in Europe and the United States. The investigations by the authorities in both Europe and the United States are at a fact-finding stage only and no formal allegations have been made against Stora Enso or any Group employees.
Subsequent to the commencement of these antitrust investigations, various Group companies have been named, along with other producers of paper and forestry products, as defendants in a number of class-action lawsuits brought in U.S. federal and state courts by direct and indirect purchasers of publication paper. They allege, generally, that the defendants have agreed to fix, increase or maintain the price of publication paper in the United States. They seek unspecified treble damages and, in some cases, restitution for the alleged overcharges resulting from the alleged violations, including interest and legal costs. There can be no assurances that Stora Enso will prevail in its efforts to defend these claims and the Group does not have liability insurance which would cover any adverse judgments or losses resulting from these lawsuits.
Due to the considerable uncertainties associated with these matters, it is not possible to estimate any potential loss contingencies, thus no provision has been made with respect to these antitrust investigations and class-action lawsuits. There can be no assurances that such investigations or lawsuits, if determined adversely, would not have a material adverse effect on the Group's business, operational results and financial condition.
- **European Commission Actions Relating to the Carbonless Paper Industry**
In 2001 the European Commission issued a decision in which it found companies in the carbonless paper industry, including our Associate Company, Mitsubishi HiTech Paper Bielefeld GmbH, guilty of illegal price-fixing and market sharing between 1992 and 1997. Mitsubishi HiTech Paper was formerly a wholly-owned subsidiary, Stora Carbonless Paper GmbH. Pursuant to the decision of the Commission, a fine of EUR 21.2 million was imposed on Mitsubishi HiTech Paper and fully paid by the Company in 2002. However, Mitsubishi HiTech Paper also appealed the Commission's decision to the European Court of First Instance in 2002, but as of 31 December 2005, the case, and any adjustment to the penalty originally imposed, was still pending with the Court of First Instance. Due to the considerable uncertainties, no provisions have been made in the Group accounting for this Associate for any contingencies relating to either an increased fine or the repayment of amounts already paid.

Other Legal Proceedings

- **Wisconsin Rapids Emissions**
The US Environmental Protection Agency ("EPA") has issued a notice of violation to Wisconsin Rapids Mill alleging that expansions and other capital projects between 1983 and 1991 violated the U.S. Clean Air Act. The EPA is seeking a penalty of USD 7.85 million and the installation of additional air pollution control equipment. Stora Enso North America Inc considers that there are a number of defenses to these allegations and thus only an immaterial provision for this loss contingency has been recorded based on the Group's best estimate of the outcome.
- **Niagara Emissions**
The EPA has issued a notice of violation and a finding of violation to Niagara Mill alleging that projects at the mill between 1995 and 1997 violated the U.S. Clean Air Act. No demand has been received from the EPA, but it is expected that the EPA will seek a monetary penalty and the installation of additional control equipment. Stora Enso North America Inc intends to defend any case brought by the EPA based upon these allegations and thus only an immaterial provision for this loss contingency has been recorded based on the Group's best estimate of the outcome.
- **Amsterdam Harbour**
Stora Timber Finance B.V. has been found responsible for soil pollution at the Port of Amsterdam, but has appealed the decision to the Court of Appeal in Amsterdam; in addition, Stora Timber Finance B.V. is also seeking compensation by way of indemnification from the contractor that originally delivered the contaminated soil. A provision of EUR 2.4 million has been provided at 31 December 2004 and 2005 relating to this loss contingency and, as a result of the on-going settlement negotiations with the Municipality of Amsterdam, there are no indications that the final costs will exceed the current accrual, which is thus considered reasonable.

Note 28 Principal Subsidiaries as at 31 December 2005

The following is a list of the Company's fifty principal operating subsidiary undertakings ranked by external sales; these companies, along with the parent, account for 96% (98%) of Group external sales. The principal country in which each subsidiary operates is the country of incorporation. The Group's effective interest in the undertakings is 100% except where indicated and is held in each case by a subsidiary undertaking except for those companies marked with "+" which are held directly by the Parent Company. The countries operating outside the Euro area are indicated by "*".

Subsidiary Companies (ranked by external sales)	Country	% Sales	Publication Paper	Fine Paper	Merchants	Packaging Boards	Wood Products	Wood Supply	Other
Stora Enso Oyj	**Finland**	**14.46**	X	X		X		X	X
Stora Enso North America Corp +*	USA	14.20	X	X		X			X
Stora Enso Publication Papers Oy Ltd +	Finland	4.35	X						
Stora Enso Skoghall AB *	Sweden	3.75				X			
Stora Enso Maxau GmbH & Co KG	Germany	3.45	X						
Stora Enso Kabel GmbH & Co KG	Germany	2.96	X						
Stora Enso Hylte AB *	Sweden	2.81	X						
Schneidersöhne GmbH	Germany	2.69			X				
Stora Enso Fors AB *	Sweden	2.52				X			
Stora Enso Kvarnsveden AB *	Sweden	2.46	X						
Stora Enso Port Hawkesbury Ltd *	Canada	2.26	X						
Stora Enso Corbehem SA	France	2.20	X						
Stora Enso Timber AG	Austria	1.91					X		
Stora Enso Skog AB *	Sweden	1.82						X	
Stora Enso Nymölla AB *	Sweden	1.77		X					
Puumerkki Oy	Finland	1.70					X		
Stora Enso Timber Oy Ltd +	Finland	1.64					X		
Stora Enso Langerbrugge NV +	Belgium	1.50	X						
Sydved AB (66.7%) *	Sweden	1.45						X	
Papyrus Sweden AB *	Sweden	1.34			X				
Stora Enso Baienfurt GmbH & Co KG	Germany	1.33				X			
Berghuizer Papierfabriek NV +	Netherlands	1.32		X					
Stora Enso Pulp AB *	Sweden	1.30	X	X					
Stora Enso Uetersen GmbH & Co KG	Germany	1.29		X					
Stora Enso Sachsen GmbH	Germany	1.26	X						
Stora Enso Poland SA (formerly Intercell) +*	Poland	1.23				X			
Stora Enso Timber AB *	Sweden	1.08					X		
Stora Enso Grycksbo AB *	Sweden	1.07		X					
Stora Enso Timber AS *	Estonia	1.05					X		
Stora Enso Barcelona S.A.	Spain	0.97				X			
Stora Enso Reisholz GmbH & Co KG	Germany	0.91	X						
Stora Enso Ingerois Oy +	Finland	0.85				X			
Stora Enso Timber US Corp*	USA	0.84					X		
Papeteries de France SA	France	0.80			X				
Scaldia Papier BV	Netherlands	0.77			X				
Enocell Oy +	Finland	0.75				X			
Laminating Papers Oy +	Finland	0.74				X			
Stora Enso Suzhou Paper Co Ltd (80.9%) *	China	0.71		X					
Papyrus A/S *	Denmark	0.69			X				
Stora Enso Packaging Oy +	Finland	0.67				X			
Papyrus France SA	France	0.66			X				
Celulose Beira Industrial SA	Portugal	0.62		X					
Stora Enso Packaging AB *	Sweden	0.61				X			
Papyrus SA	Belgium	0.57			X				
Stora EnsoTimber Bad St Leonard GmbH	Austria	0.46					X		
Stora Enso Lumber Trading GmbH	Austria	0.45					X		
OOO Stora Enso Packaging (93.5%) *	Russia	0.41				X			
Stora Enso Timber Zdirec sro *	Czech	0.39					X		
Stora Enso Bois SA	France	0.36					X		
Stora Enso Pankakoski Oy Ltd	Finland	0.34				X			
Corenso United Oy Ltd +	Finland	0.32				X			

The majority of production employees are members of labour unions with which either the Group or the forest industry customarily negotiate collective bargaining agreements in Europe. Salaries for senior management are negotiated individually. Stora Enso has incentive plans that take into account the performance, development and results of both business units and individual employees. This performance-based bonus system is based on profitability as well as on attaining key business targets.

Bonus Programmes

Division and Business Unit management have annual bonus programmes based on the corporate target return on capital employed and on the results of their respective areas of responsibility, together with the achievement of separately defined key personal targets; the bonus amounts to between 10% and 40% of salary depending on the person's position in the Company. Staff participate in another bonus plan in which the payment is calculated as a percentage of annual salary up to a maximum of 7%. All bonuses are discretionary and, for the majority of employees, at least 50% of the bonuses are dependent on financial targets, triggered only when results exceed a predetermined minimum level.
The Group has decided to continue its performance-based programmes and has expanded these to cover 75% to 80% of employees globally where allowed by local practice and regulations.

Share Based Programmes for Management

In 2004 the Board approved the implementation of two new share based programmes to complement and partially replace the existing option programme. The changes were made in response to the competitive market trend away from option programmes towards share based award schemes. In 2004 the new programmes were targeted at 200 key managers and staff in the Group and replaced 50% of the existing option programme for these employees; consequently the number of options issued under the 2004 share option programme was reduced. The total number of shares that may be awarded under these two new share programmes in 2004 was 652 500.

The Performance Share Plan will deliver awards over a three year period, based on the Group performance during each of the preceding financial years. The performance target is for the corporate return on capital employed to equal the weighted average cost of capital before any shares are awarded. The intended range of awards over the three year period is from 850 to 10 000 shares with a maximum of one and one half times the award when the corporate return on capital employed exceeds the weighted average cost of capital by 4 percentage points. The Restricted Share Plan will similarly deliver shares to managers and key employees over the same three year period subject to the employee remaining in employment of Stora Enso on the intended award date. The new share plans do not confer any beneficial interest at grant and the holder has no rights to receive shares until the future award dates materialise.

The Board also approved awarding shares under the restricted plan to a maximum of 50 key top young talents with a condition that they remain in employment for at least 5 years. The level for these awards was set at 2 500 to 5 000 shares and the maximum number of shares that may be issued is 187 500. In 2005, the Board agreed to extend the Restricted Share Plan to all participants in Stora Enso long-term incentive plans, with a required minimum vesting period of 3 years and consequently the balance of the option programme was reduced by 50%.

Option / Synthetic Option Programmes in 2005

Option Programme	Year of Issue	Strike Price Base Period in the Year	Strike Price	Number of Staff	Number of Options Issued	Number of Options Cancelled	Number of Options Exercised	Number of Options Outstanding	Exercise Period
2005	2005	4 Feb	EUR 12.20	1 000	3 076 125	0	na	3 076 125	1 Mar 2008
Synthetic		11 Feb							28 Feb 2012
2004	2004	5 Feb	EUR 11.15	1 000	4 675 300	82 500	na	4 592 800	1 Mar 2007
Synthetic		12 Feb							28 Feb 2011
2003	2003	31 Jan	EUR 10.00	1 000	6 064 150	218 750	na	5 845 400	8 Feb 2006
Synthetic		7 Feb							7 Feb 2010
2002	2002	31 Jan	EUR 16.50	1 000	5 902 000	310 000	0	5 592 000	8 Feb 2005
Synthetic		7 Feb							7 Feb 2009
2001	2001	8 Feb	EUR 11.70	500	4 215 000	300 000	0	3 915 000	1 Apr 2004
Synthetic		14 Feb							31 Mar 2008
2000	2000	18 Mar	EUR 12.25	200	2 800 000	255 000	0	2 545 000	1 Apr 2003
Synthetic		24 Mar							31 Mar 2007
1999	1999	1 May	EUR 11.75	200	2 750 000	269 550	0	2 480 450	15 Jul 2002
Synthetic		31 July							15 Jul 2006
North America	2000	na	USD 6.97	839	5 680 000	123 696	4 588 391	967 913	11 Sep 2000
Stock options			EUR 5.91						4 Feb 2010

On 1 January 2005 IFRS2, Share-based Payments, came into effect whereby the cost of the Stora Enso synthetic Option and Share-based Programmes are recognised as a cost over the vesting period, being the period between grant and right to exercise or award. In accordance with the standard, its opening effect on equity of EUR 14.8 million, the liability of EUR 20.8 million and the tax effect of EUR 6.0 million have been reflected in Total Equity and Liabilities for previous years. The charge for 2005 amounted to EUR 9.7 million, of which EUR 0.8 million related to senior executives, leaving a liability at 31 December 2005 of EUR 30.5 million, shown in Non-current Operative Liabilities, with Deferred Tax of EUR 8.5 million.

Option Programmes for Management (1999 to 2005)

In 1999 the Board announced an annual share option programme for some 200 key staff as part of an integrated top management compensation structure intended to provide a programme contributing to the long-term commitment of managerial and specialist personnel; this programme has since been extended into subsequent years and now covers some 1 000 staff. The seven-year programmes consist of financially hedged options and synthetic options, with strike prices set at levels representing then-current market prices plus 10% premiums. The synthetic options are hedged by Total Return Swaps ("TRS"), which are settled with cash payments, allowing the company to receive cash compensation to partially offset any change in the share price between the grant and settlement dates. Depending on local circumstances, option holders will receive either a payment in cash, representing the difference between the strike price and the share price at the time of exercise, or an option to purchase existing R shares. If an employee receives an option to purchase existing R shares, the Company first purchases the relevant number of R shares and then transfers them to the employee, thus avoiding any dilution in the number of shares in issue. Options are not transferable and expire if the employee leaves the Group.

As of 31 December 2005, no options from the 1999 to 2005 programmes had been taken up.

Stora Enso North America Option Programme

On 18 August 2000 the Board decided to convert the Consolidated Papers, Inc. share option plans (1989 Stock Option Plan and 1998 Incentive Compensation Plan) into Stora Enso programmes entitling holders to purchase a maximum 5 680 000 R shares, in the form of ADRs, at a weighted average strike price of USD 6.9687. The exercise period of the currently existing plans is from 11 September 2000 to 4 February 2010, depending on the grant date. On 16 October 2001 the Board decided to amend the Programme to simplify administration and speed up delivery of shares to option holders. Thus, as of 1 November 2001, no new R shares will be issued under the terms of the Programme, but instead, repurchased R shares are reserved for distribution. A total of 2 001 733 new R shares were issued before the terms were amended, thereby increasing the share capital by EUR 3.4 million.

During the year, 198 646 (733 133) options were exercised, of which 169 654 (685 085) resulted in cash compensation and 29 079 (48 048) in the allocation of repurchased R shares. At 31 December 2005, 967 913 (1 166 559) options were still outstanding.

Option Programme for Management (1997): Fully Subscribed and Closed

In 1997 the Company issued 1 000 warrants to 15 members of senior management. In 2004, a final 789 000 shares were issued, thus by 8 April 2004 the Programme had been fully subscribed and a total of 3 000 000 new R shares had been issued against the warrants, representing 0.3% of the share capital and 0.1% of the voting rights.

Director and Management Group Interests at 31 December 2005

Board of Directors	Series A Shares Held	Series R Shares Held	Committee Memberships (1) Chairman
Claes Dahlbäck, Chairman	2 541	19 529	Compensation (1), Nomination, Financial & Audit
Ilkka Niemi, Vice Chairman	-	-	Compensation, Nomination, Financial & Audit
Gunnar Brock	-	4 000	-
Lee A. Chaden (ADRs)		3 500	Financial & Audit
Harald Einsmann (ADRs)	-	4 800	Compensation
Jukka Härmälä, CEO, see below	-	-	-
Birgitta Kantola	-	1 500	Financial & Audit
Jan Sjöqvist	508	1 943	Financial & Audit (1)
Matti Vuoria	-	9 000	Compensation
Marcus Wallenberg	2 541	4 715	Nomination, Financial & Audit (to 22 Mar 2005)
Total	**5 590**	**49 987**	

Executive Management Group (EMG)	Series A Shares Held	Series R Shares Held	Synthetic Options 1999–2004	Synthetic Options 2005	Committee Memberships (1) Chairman
Jukka Härmälä, CEO	-	8 932	612 500	60 000	-
Christer Ågren	-	4 000	167 900	22 500	Sustainability
Jussi Huttunen	-	885	159 300	22 500	Sustainability
Kai Korhonen	-	885	249 400	22 500	Sustainability, R&D
Pekka Laaksonen	15 500	-	249 400	22 500	Sustainability
Arno Pelkonen (resigned 12 January 2006)	-	1 500	219 400	22 500	Sustainability, R&D
Bernd Rettig	-	1 500	249 400	22 500	R&D
Hannu Ryöppönen, CFO	-	10 676	-	20 000	
Elisabet Salander Björklund	-	1 000	72 300	22 500	R&D, Sustainability
Yngve Stade	-	2 225	249 400	22 500	Sustainability (1), R&D (1) Investment
Total	**15 500**	**31 603**	**2 229 000**	**260 000**	

Management Group Consisting of the EMG and:	Series A Shares Held	Series R Shares Held	Synthetic Options 1999–2004	Synthetic Options 2005	Committee Memberships (1) Chairman
Magnus Diesen	1 000	590	152 900	15 000	Investment (1)
Per Ericson (resigned 28 February 2006)	-	295	61 000	11 250	-
John Gillen	-	3 595	53 750	11 500	-
Nils Grafström	2 000	1 500	97 500	15 000	-
Walter Haberland	-	750	94 150	11 250	-
Peter Kickinger	-	465	84 100	15 000	Investment
Jyrki Kurkinen	-	33 318	134 150	11 250	Disclosure
Mats Nordlander	-	1 000	75 900	15 000	-
Markku Pentikäinen	-	1 000	85 300	15 000	-
Eberhard Potempa	-	750	107 250	11 250	-
Niilo Pöyhönen	-	349	92 150	11 250	R&D
Keith B Russell	-	7 885	112 500	22 500	Sustainability
Kari Vainio	-	4 800	167 900	15 000	Sustainability
Total	**3 000**	**56 297**	**1 318 550**	**180 250**	
Total, Serving Officers	**24 090**	**136 887**	**3 547 550**	**440 250**	

Details of officers who stood down during the year are not shown above.

The following Executive Officers also Served in 2005	Capacity	Series A Shares Held	Series R Shares Held	Synthetic Options 1999–2004	Synthetic Options 2005	Effective Date
Björn Hägglund	EMG, Deputy CEO	7 877	14 618	498 750	20 000	1 June
Esko Mäkeläinen	EMG, CFO	1 900	6 169	249 400	22 500	31 December
Lars Bengtsson	EMG, (North America)	-	-	234 400	22 500	31 December
John F Bergin (ADRs)	MG, Speciality Papers	-	80 715	61 250	11 250	31 December
Petri Wager	MG, Sales network	-	-	103 600	15 000	30 April
Total, Former Officers		**9 777**	**101 502**	**1 147 400**	**91 250**	-

Stora Enso utilises TRS to partially hedge exposures to changes in the share price of synthetic options granted under the Option Programmes for Management, which are settled with cash payments. While these TRS instruments allow the Group to partially stabilise future cash flows related to the settlement of outstanding synthetic options, they result in certain market risks. Group TRS instruments do not qualify for hedge accounting; therefore periodic changes to their fair value are recorded in the Income Statement.

As of 31 December 2005 there were TRS instruments outstanding covering 35 696 400 (31 196 400) underlying Stora Enso Oyj R ordinary shares recorded at a net fair value of EUR -1.8 (EUR -11.4) million, as disclosed in Note 25. The settlement periods of the TRS instruments match the life of the associated synthetic options, mature between 2006 and 2011 and allow for earlier settlement at the Group's election. A 10% fall in the share price of Ordinary R Shares would result in a decrease in the net fair value of the TRS instruments of EUR 40.8 (EUR 35.2) million, based on a closing share price at the year end of EUR 11.44 (EUR 11.27) on the Helsinki Stock Exchange.

Note 30 Related Party Transactions

During the last three years, Stora Enso has not been involved in any material transactions with any Group directors or executive officers, any of the 10% shareholders, or any relative or spouse of any of these persons. With certain limitations, the Finnish Companies Act permits members of the Board of Directors to borrow money from the Group so long as such loans are secured and within the limits of distributable equity. However, no directors or executive officers and none of the 10% shareholders owe any significant amounts to the Group. The Group has not, directly or indirectly, extended or maintained credit, arranged for the extension of credit, or renewed an extension of credit, in the form of a personal loan to or for any of directors or executive officers in violation of the US Exchange Act.

In the ordinary course of business, the Group engages in transactions on commercial terms with associated companies and other related parties that are no less favourable than would be available to other third parties. Stora Enso intends to continue with transactions on a similar basis with its Associates, further details of which are shown in Note 14.

Pulp

Although most chemical pulp requirements are produced internally, some is purchased from the pulp mill of Sunila Oy, a 50% associated company owned jointly with Myllykoski Oy. Stora Enso supplies fibre to Sunila, selling them EUR 34.3 (EUR 33.6) million of wood during the year, and in return, Sunila sells the resulting pulp back to the Group, all at market prices; in 2005 the Group purchased 136 612 (156 696) metric tons from Sunila for a total price of EUR 56.7 (EUR 66.5) million.

Stora Enso and its local partner, Aracruz Celulose S.A., have constructed a 900 000 tonnes per year eucalyptus pulp mill in Brazil for their jointly owned associate company Veracel Celulose S.A.; each company has a 50% stake and will be entitled to half of the mill's output. The mill commenced production in May 2005 and the first shipments of pulp were sent to Stora Enso mills in Europe and China in July. Shipments of eucalyptus pulp to Group companies in 2005 totalled 162 085 tonnes with an invoice value of EUR 40.8 million. Stora Enso Oyj has also guaranteed the indebtedness of Veracel to various local and international banks, the amount outstanding at the year end being EUR 333.0 (EUR 150.9) million.

Energy

The Group holds a 15.6 % interest in Pohjolan Voima Oy, a power producer that is a majority shareholder in Teollisuuden Voima Oy, one of Finland's two nuclear power companies. In accordance with the Articles of the company, as the second largest shareholder, Stora Enso has the right to appoint the Deputy-Chairman of the Board of Directors, a post occupied since 21 March 2002 by Pekka Laaksonen. Prices paid to Pohjolan Voima for electricity are based on production costs, which are generally lower than market prices, and amounted to EUR 48.1 (EUR 77.2) million. The Group also sells surplus power to Pohjolan Voima amounting to EUR 12.0 (EUR 4.8) million.

Financial Arrangements

The Group borrows from, or has financial arrangements with, several financial institutions where certain members of the Stora Enso Board of Directors or Executive Management Group also act as members of the Board of Directors, Supervisory Board or Executive Management Group of one or more of those bodies. These include Skandinaviska Enskilda Banken AB in the case of Marcus Wallenberg, Varma Mutual Pension Insurance Company in the case of Jukka Härmälä and Paavo Pitkänen, and Mutual Pension Insurance Company Ilmarinen in the case of Esko Mäkeläinen. Paavo Pitkänen and Esko Mäkeläinen, however, retired as officers of Stora Enso in 2005. All Group borrowings and financial arrangements have been negotiated on arms-length terms and several have existed for a number of years and prior to the current board membership.

In July 2005 the Group set up a foundation to deal with its Swedish pension liabilities, the directors consisting of two representatives of both the employer and staff, with an independent chairman. In October the Group capitalised the Foundation with SEK 1 986 (EUR 211.5) million to discharge the legal liability of the units under Swedish rules. In November the Group sold the Foundation a nominal SEK 850 (EUR 90.5) million of Loan Notes in the Group's Swedish forest Associate, Bergvik Skog AB for SEK 992 (EUR 105.7) million, and in December a further 700 000 Nordea Bank AB shares worth SEK 56 (EUR 6.0) million were sold; the values of these securities were independently appraised and the Group realised a profit of EUR 10.3 million and EUR 4.2 million respectively.

Research and Development

Stora Enso conducts research and development activities through Oy Keskuslaboratorio (“KCL”), in which a 30% interest is held. Part of the Group’s basic research requirements is sourced from KCL, which also performs research on a contract basis at cost; in 2005 total payments to KCL amounted to EUR 3.4 (EUR 5.0) million. Discoveries made in the process of its research activities are the property of KCL, which makes a decision whether to apply for a patent for each discovery on a case-by-case basis. If a patent is granted, the four corporate owners of KCL, one being Stora Enso, have a right to use the patent. If, however, KCL decides not to apply for a patent, the discovery is auctioned to its corporate owners or, if they are not interested, to unrelated third parties.

Recycled Paper

The Group owns minority interests in several paper recyclers from whom recycled paper is purchased at market prices, this amounting to EUR 18.3 (EUR 36.9) million for the year, though one of the biggest of these, Vlar Papier NVof Belgium became a subsidiary in 2005.

Forest Assets & Wood Procurement

The Group has a 41% interest in Tornator Timberland Oy, with the remaining 59 % being held by Finnish institutional investors. One such investor with a 13.3% holding is Varma Mutual Pension Insurance Company, where Jukka Härmälä, Stora Enso’s CEO, is the vice chairman of the Supervisory Board. Stora Enso has longterm supply contracts with the Tornator Group for approximately 1.5 million cubic meters of wood annually at market prices and in 2005 purchases came to EUR 43.5 (EUR 46.7) million.

The Group has a 43.3% interest in Bergvik Skog AB, with the remaining 56.7 % held mainly by institutional investors. These investors include the Knut and Alice Wallenberg Foundation with a holding of 7.0%; however they also control 23.8% of the voting rights in Stora Enso. The Group has longterm supply contracts with Bergvik Skog AB under which it sells some 5.0 million cubic meters of wood annually at market prices; in 2005 purchases of 4.70 (3.98) million cubic meters came to EUR 123.0 (EUR 97.3) million with Group sales to Bergvik being EUR 27.7 (EUR 25.4) million.

Stevedoring

The Group currently owns 34.3% of the shares of Steveco Oy, a Finnish company engaged in loading and unloading vessels, the other shareholders being UPM-Kymmene, Finnlines, Ahlström and Myllykoski Paper. Stevedoring services provided by Steveco are at market prices and, in 2005, amounted to EUR 20.6 (EUR 21.9) million.

Note 31 Earnings per Share and Equity per Share

Earnings per Share

	Year Ended 31 December		
	2003	**2004**	**2005**
Net Profit/ (Loss) for the Period, EUR million	**137.9**	**739.7**	**-130.0**
Weighted Average Number of A and R Shares	**851 127 954**	**829 396 446**	**798 686 750**
Effect of Warrants	194 214	610 540	530 991
Diluted Number of Shares	**851 326 168**	**830 006 986**	**799 217 741**
Basic Earnings / (Loss) per Share, EUR	**0.16**	**0.89**	**-0.16**

There was no difference between Basic Earnings per Shares and Diluted Earnings due to the immaterial effect of the warrants.

Equity per Share

	As at 31 December		
	2003	**2004**	**2005**
Shareholders' Equity, EUR million	**7 938.1**	**8 036.3**	**7 645.3**
Market Value, EUR million	**9 288.3**	**9 485.9**	**9 304.0**
Number of A and R Shares	**838 073 020**	**820 436 168**	**788 565 047**
Basic Shareholders' Equity per Share, EUR	**9.47**	**9.80**	**9.70**
Dividend per Share Paid / Declared, EUR	**0.45**	**0.45**	**0.45**
Market Value per Share, EUR			
A shares	11.00	11.55	11.46
R shares	10.68	11.27	11.44
Average	**10.75**	**11.33**	**11.44**

Note 32 Post-Balance Sheet Events

On 5 January 2006 Stora Enso announced that, as a result of the detailed due diligence process, it had decided to withdraw from the proposed consumer board project in China, which had previously been announced in August 2005.

Parent Company Financial Statements and Notes

Parent Company Income Statement

EUR million	Note	Year Ended 31 December 2004	2005
Sales	2	**3 151.1**	**2 757.0**
Finished and semi-finished goods, increase		17.1	38.9
Production for own use		2.3	1.6
Other operating income	3	134.4	138.2
Materials and services	4	-2 060.6	-1 906.4
Personnel expenses	5	-326.3	-281.9
Depreciation and value adjustments	8	-247.3	-263.0
Other operating expenses	6	-543.5	-533.6
Operating Profit		**127.2**	**-49.2**
Net financial items	7	-0.6	-240.2
Profit before Extraordinary Items		**126.6**	**-289.4**
Extraordinary income	9	94.1	24.6
Extraordinary expense	9	-41.1	-
Profit before Appropriations and Taxes		**179.6**	**264.8**
Appropriations	11	-14.4	24.4
Income tax expense		-44.1	0.7
Net Profit for the Period		**121.1**	**-239.7**

The operations of the subsidiary company Kemijärven Sellu Oy was merged into the Parent Company on 1 October 2004 and the above figures include its results from that date.

The operations of the subsidiary companies Oy Holy Ab, Stora Enso Forest Consulting Oy Ltd, Stora Enso Teollisuustontit Oy and Pakkaus-Piste Oy were merged into the Parent Company on 1 December 2004 and the above figures include their results from that date.

Parent Company Cash Flow Statement

EUR million	Year Ended 31 December 2004	2005
Cash Provided by Operating Activities		
Net profit for the period	121.1	-239.7
Reversal of non-cash items:		
Taxes	44.1	-0.7
Appropriations	14.4	-24.4
Extraordinary items	-53.0	-24.6
Depreciation, amortisation and impairment	247.4	263.0
Profit/losses on sale of fixed assets	-3.2	-8.8
Net financial income	0.6	240.2
Interest received	61.3	61.2
Interest paid, net of amounts capitalised	-194.2	-172.5
Dividends received	48.3	105.0
Other financial items, net	186.4	-135.3
Income taxes paid	-29.1	4.6
Change in net working capital	106.9	-131.3
Net Cash Provided by Operating Activities	**551.0**	**-63.3**
Cash Flow from Investing Activities		
Acquisition of subsidiary shares, net of cash	-462.5	-89.9
Investment in shares in other companies	-9.3	-2.8
Capital expenditure	-128.8	-100.1
Proceeds from disposal of subsidiary shares, net of cash	3.5	1.1
Proceeds from disposal of shares in associated companies	0.5	-
Proceeds from disposal of shares in other companies	15.4	87.8
Proceeds from sale of fixed assets	3.5	3.2
Proceeds from (payment of) long-term receivables, net	-23.1	-5.1
Net Cash Used in Investing Activities	**-600.8**	**-105.8**
Cash Flow from Financing Activities		
Proceeds from (payment of) long-term liabilities, net	-744.3	1 306.0
Proceeds from (payment of) short-term borrowings, net	-436.2	246.4
Dividends paid	-375.7	-365.3
Share repurchases	-198.6	-344.8
Proceeds from issue of share capital	4.4	0
Net Cash Used in Financing Activities	**-1 750.4**	**842.3**
Net Increase (Decrease) in Cash and Cash Equivalents	**-1 800.2**	**673.2**
Translation adjustment	23.6	1.0
Cash and cash equivalents from merged companies	2.5	6.2
Cash and cash equivalents at start of year	2 607.1	832.9
Cash and Cash Equivalents at Year End	**832.9**	**1 513.3**

Parent Company Balance Sheet

Assets

EUR million	Note	As at 31 December 2004	As at 31 December 2005
Fixed Assets and Other Long-term Investments			
Intangible assets	10	118.4	113.8
Tangible assets	10	1 959.7	1 848.3
Shares in Group companies	13	12 500.9	12 560.6
Shares in associated companies	13	52.8	52.8
Shares in other companies	13	287.4	210.1
Long-term loan receivables	13	578.9	597.1
		15 498.1	**15 382.7**
Current Assets			
Inventories	14	316.8	442.0
Short-term receivables	15	539.3	488.2
Interest-bearing receivables	16	1 111.0	1 866.7
Treasury shares	17	180.8	-
Cash and cash equivalents		108.3	117.6
		2 256.2	**2 914.5**
Total Assets		**17 754.3**	**18 297.2**

Shareholders’ Equity and Liabilities

EUR million	Note	As at 31 December 2004	As at 31 December 2005
Shareholders’ Equity			
Share capital		1 423.3	1 382.1
Share premium fund		4 406.5	4 182.1
Treasury shares		180.8	-
Reserve fund		353.9	353.9
Retained earnings		4 439.1	4 115.7
Net profit for the period		121.1	-239.7
	17	**10 924.7**	**9 794.1**
Appropriations: Depreciation reserve	11	**960.7**	**961.6**
Provisions		**8.1**	**19.0**
Long-term Liabilities	18	**2 928.9**	**3 847.6**
Current Liabilities			
Current portion of long-term debt	18	60.5	368.6
Short-term borrowings	19	2 453.9	2 998.5
Other current liabilities	20	417.5	307.8
		2 931.9	**3 674.9**
Total Shareholders’ Equity and Liabilities		**17 754.3**	**18 297.2**

Note 1 Accounting Principles

The Parent Company Financial Statements are prepared according to Generally Accepted Accounting Principals in Finland, "Finnish GAAP"; see Group Consolidated Financial Statements, Note 1. The main differences between the accounting policies of the Group and the Parent Company are:

- The valuation of financial assets, financial liabilities, derivative financial instruments and securities.
- Accounting of post-employment Defined Benefit plans
- Accounting for associated company results.
- The presentation and accounting for deferred tax.

Note 2 Sales by Segment

	Year Ended 31 December	
EUR million	**2004**	**2005**
Publication Paper	262.0	259.0
Fine Paper	1 276.3	1 039.2
Packaging Boards	836.7	750.5
Wood Supply	1 139.1	1 293.7
Other and eliminations	-363.0	-585.4
	3 151.1	**2 757.0**

Note 3 Other Operating Income

	Year Ended 31 December	
EUR million	**2004**	**2005**
Profit on sale of fixed assets	3.5	14.0
Rent	15.6	14.8
Insurance compensation	1.1	0.2
Subsidies	2.6	3.5
Other	111.5	105.7
	134.4	**138.2**

Note 4 Materials and Services

	Year Ended 31 December	
EUR million	**2004**	**2005**
Materials and supplies		
Purchases during the period	1 637.0	1 544.1
Change in inventories	23.9	-78.8
	1 660.9	1 465.3
External Services	399.7	441.1
	2 060.6	**1 906.4**

Note 5 Personnel Expenses

	Year Ended 31 December	
EUR million	**2004**	**2005**
Wages and salaries	248.6	212.0
Pensions	52.5	49.1
Other statutory employer contributions	25.2	20.8
	326.3	**281.9**

The remuneration of the Board of Directors and the CEO amounted to EUR 1.3 (EUR 1.2) million.

Average Number of Personnel	**6 319**	**6 205**

Note 6 Other Operating Expenses

	Year Ended 31 December	
EUR million	**2004**	**2005**
Loss on sale of fixed assets / shares	**0.3**	**5.2**

Included in other operating expenses

Note 7 Net Financial Items

	Year Ended 31 December	
EUR million	**2004**	**2005**
Financial Income		
Dividend income		
Group companies	15.4	93.1
Associated companies	7.9	7.6
Other companies	25.0	4.3
	48.3	105.0
Interest income from long-term investments		
Group companies	19.6	22.3
Other Interest and Financial Income		
Group companies	45.5	33.1
Other	9.1	7.0
	54.6	40.1
Total Dividend, Interest and Other Financial Income	**122.5**	**167.4**
Exchange Rate Difference on Financial Items	**80.9**	**-198.8**
Value Adjustments on Long-term Financial Investments	**-12.3**	**-**
Interest and Other Financial Expense		
Group companies	-53.7	-43.7
Other	-138.0	-165.1
	-191.7	**-208.8**
Net Financial Items	**-0.6**	**-240.2**

Note 8 Depreciation According to Plan

	Year Ended 31 December	
EUR million	**2004**	**2005**
Intangible rights	10.3	14.6
Goodwill	10.7	10.7
Other intangible assets	0.1	0.2
Total for Intangibles	21.1	25.5
Buildings and structures	22.1	24.3
Machinery and equipment	194.7	204.1
Other tangible assets	9.4	9.1
Total Depreciation	**247.3**	**263.0**

Note 9 Extraordinary Items

	Year Ended 31 December	
EUR million	**2004**	**2005**
Income		
Group contributions	93.0	19.5
Merger gains	1.1	5.1
	94.1	**24.6**
Expense		
Group contributions	**41.1**	-

Note 10 Fixed Assets

	Year Ended 31 December 2005				
EUR million	**Intangible Assets**	**Land and Water**	**Buildings and Structures**	**Machinery and Equipment**	**Other Tangible Assets**
Acquisition Cost					
At 1 January	205.0	35.2	585.6	2 572.2	198.5
Additions	21.5	0.1	12.2	127.9	29.0
Disposals	-3.3	-0.1	-14.8	-45.7	-38.1
Acquisition Cost at 31 December	223.2	35.2	583.0	2 654.4	189.4
Accumulated Depreciation					
At 31 December	109.4	-	180.8	1 352.6	80.3
Net Book Value at 31 December 2005	**113.8**	**35.2**	**402.2**	**1 301.8**	**109.1**
Net Book Value at 31 December 2004	**118.4**	**35.2**	**419.6**	**1 383.4**	**121.5**

The Company had capitalised interest on the construction of qualifying assets at the year end of EUR 8.4 (EUR 12.2) million; the amount added for the year totalled EUR 0.0 (EUR 0.0) million against an amortisation charge amounting to EUR 3.8 (EUR 3.8) million.

Note 11 Depreciation Reserve

	Year Ended 31 December 2005				
EUR million	**Intangible Assets**	**Buildings and Structures**	**Machinery and Equipment**	**Other Tangible Assets**	**Total**
Accumulated difference at 1 January	5.7	152.3	762.7	40.0	960.7
Movement for the year	1.1	-4.9	3.4	1.3	0.9
Accumulated difference at 31 December 2005	**6.8**	**147.4**	**766.1**	**41.3**	**961.6**

Note 12 Receivables from Management

There were no receivables from Group Management.

Note 13 Long-term Investments and Loan Receivables

EUR million	As at 31 December 2004	2005
Group Companies		
Shares	12 500.9	12 560.6
Loan receivables	578.7	597.0
Total	**13 079.6**	**13 157.6**
Associated Companies		
Shares	**52.8**	**52.8**
Other Companies		
Shares	172.4	95.0
Revaluations	115.0	115.1
	287.4	210.1
Loan receivables	0.2	0.1
Total	**287.6**	**210.2**

Holdings in listed companies had a net book value of EUR 33.7 (EUR 107.8) million and a market value of EUR 174.0 (EUR 191.9) million.

Note 14 Inventories

EUR million	As at 31 December 2004	2005
Materials and supplies	125.6	204.4
Work in progress	10.1	11.1
Finished goods	171.7	215.6
Other inventories	9.3	10.9
	316.7	**442.0**

Note 15 Short-term Receivables

EUR million	As at 31 December 2004	2005
Accounts Receivable		
Group companies	111.2	126.0
Associated companies	3.3	5.3
Others	275.2	211.7
	389.7	**343.0**
Prepaid Expenses and Accrued Income		
Group companies	3.5	3.8
Associated companies	0.2	0.1
Others	20.3	28.7
	24.0	**32.6**
Other Receivables		
Group companies	96.0	21.9
Associated companies	0.8	0.1
Others	28.8	90.6
	125.6	**112.6**
Total Short-term Receivables	**539.3**	**488.2**

Note 16 Interest-bearing Receivables

EUR million	As at 31 December 2004	2005
Group		
Loan receivables	95.8	91.5
Interest receivable	27.4	30.8
Other securities	845.9	1 565.4
	969.1	**1 687.7**
Others		
Loan receivables	0.1	0.1
Interest receivable	137.5	149.6
Other securities	4.3	29.3
Total	**1 111.0**	**1 866.7**

Note 17 Shareholders' Equity

EUR million	As at 31 December 2004	2005
Share capital at 1 January	1 469.3	1 423.3
Cancellation of treasury shares (nominal value)	-47.3	-41.2
Warrants exercised	1.3	-
Share Capital at 31 December	**1 423.3**	**1 382.1**

Full details of shares in issue are shown in Note 19 for the Group.

EUR million	2004	2005
Share premium fund at 1 January	4 630.2	4 406.5
Increase / (-decrease)	-223.7	-224.4
Share Premium Fund at 31 December	**4 406.5**	**4 182.1**
Treasury shares at 1 January	258.0	180.8
Repurchase of own shares	198.6	-
Cancellation of shares	-275.8	-180.8
Treasury Shares at 31 December	**180.8**	-
Reserve Fund	**353.9**	**353.9**
Retained earnings at 1 January	4 737.9	4 560.2
Dividends paid	-375.7	-365.3
Acquisition of treasury shares	-198.6	-344.8
Cancellation of treasury shares	275.8	265.7
Transfer	-0.3	-0.1
	4 439.1	**4 115.7**
Profit for the period	121.1	-239.7
Retained Earnings at 31 December	**4 560.2**	**3 876.0**
Total Shareholders' Equity	**10 924.7**	**9 794.1**
Distributable Funds		
Non-restricted equity	4 741.0	3 876.0
Treasury shares	-180.8	-
	4 560.2	**3 876.0**

Note 18 Long-term Liabilities

EUR million	Repayment Schedule of Long-term Debt as at 31 December 2006	2007	2008	2009	2010	2011+	Total
Bond loans	288.9	424.1	276.7	493.5	525.0	1 233.1	3 241.3
Loans from credit institutions	79.6	200.5	274.5	71.8	73.1	145.0	844.5
Other long-term liabilities	0.1	0.1	-	-	-	5.0	5.2
Other long-term liabilities: Group companies	-	125.2	-	-	-	-	125.2
	368.6	**749.9**	**551.2**	**565.3**	**598.1**	**1 383.1**	**4 216.2**
Current Liabilities: Repayable within 12 months							**368.6**
Long-term Liabilities: Repayable after 12 months							**3 847.6**

Note 19 Short-term Borrowings

EUR million	As at 31 December 2004	2005
Group companies	2 021.4	1 863.5
Others	432.5	1 135.0
Total	**2 453.9**	**2 998.5**

Note 20 Other Current Liabilities

EUR million	As at 31 December 2004	2005
Advances Received		
Others	**2.8**	**1.1**
Trade Payables		
Group companies	40.0	50.4
Associated companies	1.1	0.7
Others	131.8	72.4
	172.9	**123.5**
Other Current Liabilities		
Group companies	41.2	0.4
Others	54.2	23.5
	95.4	**23.9**
Accrued Liabilities and Deferred Income		
Group companies	11.9	22.3
Others	134.5	137.0
	146.4	**159.3**
Total	**417.5**	**307.8**

Note 21 Commitments and Contingent Liabilities

EUR million	As at 31 December 2004	2005
On own behalf		
Pledges given	0.8	0.8
Mortgages	46.4	46.4
On behalf of Group companies		
Guarantees	748.5	843.8
On behalf of associated companies		
Guarantees	200.2	352.3
On behalf of others		
Guarantees	0.6	0.6
Other commitments, own		
Leasing commitments, next 12 months	1.5	2.3
Leasing commitments, after next 12 months	0.4	2.8
Other commitments	0.7	1.0
Total	**999.1**	**1 250.0**
Pledges given	0.8	0.8
Mortgages	46.4	46.4
Guarantees	949.3	1 196.7
Leasing commitments	1.9	5.1
Other commitments	0.7	1.0
Total	**999.1**	**1 250.0**

Note 22 Fair Value of Open Financial Instruments

EUR million	Nominal Value 2004	Nominal Value 2005	Fair Value 2004	Fair Value 2005
Interest Rate Derivatives				
Interest rate swap agreements	2 763.7	3 553.6	140.9	84.6
Interest rate options	198.4	629.3	1.1	-0.5
	2 962.1	4 182.9	142.0	84.1
Foreign Exchange Derivatives				
Forward agreements	3 677.9	4 084.4	-96.0	-101.0
Cross currency swap agreements	102.7	60.2	-11.6	-5.2
Currency options	668.5	1 808.3	1.4	-1.0
	4 449.1	5 952.9	-106.2	-107.2
Commodity Derivatives	814.1	708.2	3.5	28.9
Equity Swaps	359.5	408.5	-11.4	-1.8

As at 31 December

The fair value of a derivative represents the result to date, being the movement away from the par nominal value.

Note 23 Net Deferred tax Liabilities

EUR million	As at 31 December 2004	2005
Depreciation difference	249.8	250.0
Financial derivatives	6.3	-6.1
Obligatory reserves	-2.1	-4.9
Losses	-	-74.1
Total	**254.0**	**164.9**

Proposal for the Distribution of Dividend

The Consolidated Balance Sheet at 31 December 2005 shows retained earnings of EUR 5 397.4 million, of which EUR 3 349.1 million is distributable.

The Parent Company distributable shareholders' equity at 31 December 2005 amounted to EUR 4 115 670 495.36 and therefore the Board of Directors proposes to the Annual General Meeting of the Company that the loss for the financial period of EUR -239 679 139.65 be transferred to retained earnings and that the dividend be distributed as follows:

Profits from previous periods	4 115 670 495.36
Loss for the financial period	-239 679 139.65
Dividend of EUR 0.45 per share to be distributed on 812 977 099 shares	-365 839 694.55
Retained earnings after the distribution of dividend	3 510 151 661.16

Helsinki, 1 February 2006

Claes Dahlbäck
Chairman

Ilkka Niemi
Vice Chairman

Gunnar Brock

Lee A. Chaden

Harald Einsmann

Birgitta Kantola

Jan Sjöqvist

Matti Vuoria

Marcus Wallenberg

Jukka Härmälä
CEO

Auditors' Report

To the Shareholders of Stora Enso Oyj
We have audited the accounting records, the financial statements and the administration of Stora Enso Oyj for the year ended 31 December 2005. The Board of Directors and the Chief Executive Officer have prepared the report on operations and the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, and the parent company's financial statements prepared in accordance with prevailing regulations in Finland, that include parent company's balance sheet, income statement, cash flow statement and the notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, the parent company's financial statements and on the administration of the parent company.

We have conducted the audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit 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 our audit of administration is to examine that the members of the Board of Directors and the Chief Executive Officer of the parent company have legally complied with the rules of the Finnish Companies Act.

Consolidated financial statements
In our opinion the consolidated financial statements give a true and fair view, as referred to in International Financial Reporting Standards as adopted by the EU and defined in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position. The consolidated financial statements can be adopted.

Parent company's financial statements and administration
In our opinion the parent company's 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 Finnish Accounting Act, of the parent company's 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 Chief Executive Officer of the parent company can be discharged from liability for the year audited by us. The proposal by the Board of Directors regarding distributable funds is in compliance with the Finnish Companies Act.

Helsinki, 28 February 2006

PricewaterhouseCoopers Oy
Authorised Public Accountants

Eero Suomela
APA

Capacities by Mill in 2006

Publication Paper

Mill	Location	Grade	Capacity 1 000 t
Anjala	FIN	Impr. news, book	515
Biron	USA	LWC	355
Corbehem	FRA	LWC	560
Duluth	USA	SC	235
Hylte	SWE	News	830
Kabel	DEU	LWC, MWC, HWC	615
Kotka	FIN	MFC	170
Kvarnsveden	SWE	SC, news, impr. news	910
Langerbrugge	BEL	SC, news, impr. news, directory	550
Maxau	DEU	SC, news	695
Niagara	USA	LWC	220
Port Hawkesbury	CAN	SC, news	570
Reisholz	DEU	SC	215
Sachsen	DEU	News, directory	340
Summa	FIN	MF, news, impr. news	410
Varkaus	FIN	Directory, impr. news, news	285
Veitsiluoto	FIN	LWC, MWC	440
Whiting	USA	LWC	210
Wolfsheck	DEU	SC, wallpaper base	155
Total			**8 280**

Fine Paper

Mill	Location	Grade	Capacity 1 000 t
Berghuizer	NLD	WFU	245
Grycksbo	SWE	WFC	285
Imatra	FIN	WFU	215
Kimberly	USA	WFC	470
Nymölla	SWE	WFU	470
Oulu	FIN	WFC	1 015
Suzhou	CHN	WFC	195
Uetersen	DEU	WFC	200
Wisconsin Rapids	USA	WFC	435
Varkaus	FIN	WFC, WFU	325
Veitsiluoto	FIN	WFU	550
Total			**4 405**

Packaging Boards

Mill	Location	Grade	Capacity 1 000 t
Consumer Boards			
Baienfurt	DEU	FBB	205
Barcelona	ESP	WLC	170
Fors	SWE	FBB	380
Imatra	FIN	SBS, FBB, LPB	930
Ingerois	FIN	FBB	205
Pankakoski	FIN	FBB, WPB, SBS	95
Skoghall	SWE	LPB, FBB, WTL	745
Total			**2 730**
Industrial Packaging			
Industrial Papers			
Heinola	FIN	SC fluting	285
Imatra	FIN	Laminating papers	25
Kotka	FIN	Laminating papers	160
Ostroleka	POL	Testliner, RCP fluting, sack paper, wrapping paper	250
Total			**720**
Coreboard			
Pori	FIN	Coreboard	125
Soustre	FRA	Coreboard	90
Varkaus	FIN	Coreboard	95
Wisconsin Rapids	USA	Coreboard	35
Total			**345**
Total Industrial Packaging			**1 065**
Specialty Papers			
Imatra	FIN	Coated specialities	85
Kimberly	USA	Coated specialities	120
Stevens Point	USA	Coated specialities	130
Uetersen	DEU	Coated specialities	70
Total			**405**
TOTAL PACKAGING PAPER & BOARD			**4 200**

Further Processing

Consumer Boards			
Plastic coating plants			**1 000 t**
Forshaga	SWE	Plastic coating	140
Hammarby	SWE	Plastic coating	15
Imatra	FIN	Plastic coating	280
Karhula	FIN	Plastic coating	45
Total			**480**

Abbreviations used in the tables:

- LWC light-weight coated paper
- SC super-calendered paper
- MWC medium-weight coated paper
- HWC heavy-weight coated paper
- MFC machine-finished coated paper
- MF machine-finished paper
- WFU wood free uncoated
- WFC wood free coated
- FBB folding boxboard
- WLC white lined chipboard
- SBS solid bleached sulphate board
- LPB liquid packaging board
- WPB wood pulp board
- WTL white top liner
- CKB coated kraft back
- RCP recovered paper
- DIP deinked pulp
- CTMP chemi-thermo-mechanical pulp

Packaging Boards (cont.)

Industrial Packaging

Corrugated Packaging			million m²
Arzamas	RUS	Corrugated packaging	90
Balabanovo	RUS	Corrugated packaging	150
Heinola	FIN	Corrugated packaging	65
Intercell	POL	Corrugated packaging	280
Jönköping	SWE	Corrugated packaging	80
Kaunas	LTU	Corrugated packaging	20
Lahti	FIN	Corrugated packaging	110
Páty	HUN	Corrugated packaging	30
Riga	LTA	Corrugated packaging	90
Ruovesi	FIN	Corrugated packaging	20
Skene	SWE	Corrugated packaging	80
Tallinn	EST	Corrugated packaging	20
Tartu	EST	Corrugated packaging	5
Tiukka	FIN	Corrugated packaging	20
Vikingstad	SWE	Corrugated packaging	50
Total			**1 110**

Cores			1 000 t
China	CHN	Cores	30
Corenso Edam	NLD	Cores	10
Corenso Elfes	DEU	Cores	35
Corenso Svenska	SWE	Cores	35
Corenso Tolosana	ESP	Cores	15
Corenso UK	GBR	Cores	40
Imatra	FIN	Cores	7
Loviisa	FIN	Cores	22
Pori	FIN	Cores	13
Wisconsin Rapids	USA	Cores	25
Total			**232**

Chemical Pulp

Mill	Location	Grade	Capacity 1 000 t
Celbi	PRT	Short-fibre (euca)	315
Enocell	FIN	Short and long-fibre	680
Kemijärvi	FIN	Long-fibre	245
Norrsundet	SWE	Long-fibre	295
Skutskär	SWE	Short, long-fibre and fluff pulp	550
Kaukopää	FIN	Short and long-fibre	855
Tainionkoski	FIN	Short and long-fibre	170
Kotka	FIN	Long-fibre	175
Nymölla	SWE	Short and long-fibre	355
Ostroleka	POL	Long-fibre	105
Oulu	FIN	Short and long-fibre	375
Skoghall	SWE	Long-fibre	305
Varkaus	FIN	Short and long-fibre	210
Veitsiluoto	FIN	Short and long-fibre	400
Wisconsin Rapids	USA	Short and long-fibre	455
			5 490

Associated companies

Mill	Location	Grade	Capacity 1 000 t
Sunila (50%)	FIN	Long-fibre	185
Veracel (50%)	BRA	Short-fibre (euca)	450
			635

Total Chemical Pulp	**6 125**
of which market pulp*	1 100

* Market pulp defined as dried pulp shipped out from the mill to external customers

Deinked Pulp (DIP)

Mill	Location	Grade	Capacity 1 000 t
Duluth	USA	DIP	100
Keräyskuitu	FIN	DIP	70
Sachsen	DEU	DIP	425
Hylte	SWE	DIP	360
Langerbrugge	BEL	DIP	650
Maxau	DEU	DIP	295
Total			**1 900**

CTMP

Mill	Location	Grade	Capacity 1 000 t
Fors	SWE	CTMP	160
Kaukopää	FIN	CTMP	200
Skoghall	SWE	CTMP	250
Total			**610**

Wood Products

Mill	Location	Sawing Capacity 1 000 m³	Further Processing Capacity 1 000 m³
Ala	SWE	370	20
Alytus	LIT	180	90
Amsterdam	NLD	-	110
Bad St Leonhard	AUT	370	240
Brand	AUT	420	275
Gruvön	SWE	400	150
Honkalahti	FIN	350	70
Imavere	EST	400	145
Impilahti	RUS	120	-
Kitee	FIN	390	120
Kopparfors	SWE	300	150
Kotka	FIN	320	60
Launkalne	LAT	215	-
Linghed	SWE	40	-
Näpi	EST	150	80
Nebolchi	RUS	120	-
Paikuse	EST	220	80
Pfarrkirchen	DEU	-	130
Plana	CZE	350	255
Sauga	EST	130	90
Sollenau	AUT	410	310
Tolkkinen	FIN	270	-
Uimaharju	FIN	300	-
Varkaus	FIN	345	100
Veitsiluoto	FIN	200	-
Viljandi	EST	-	20
Ybbs	AUT	700	440
Zdirec	CZE	590	330
Wood Products		**7 660**	**3 265**

The formula: (Sum of net saleable production of two best consecutive months / Available time of these two consecutive months) x Available time of the year

Calculation of Key Figures

Return on capital employed, ROCE (%)	$100 \times \dfrac{\text{Operating profit}}{\text{Capital employed}^{1)\,2)}}$
Return on operating capital, ROOC (%)	$100 \times \dfrac{\text{Operating profit}}{\text{Operating capital}^{1)\,2)}}$
Return on equity, ROE (%)	$100 \times \dfrac{\text{Profit before tax and minority items – taxes}}{\text{Equity + minority interests}^{2)}}$
Equity ratio (%)	$100 \times \dfrac{\text{Equity + minority interests}}{\text{Total assets}}$
Interest-bearing net liabilities	Interest-bearing liabilities – interest-bearing assets
Debt/Equity ratio	$\dfrac{\text{Interest-bearing net liabilities}}{\text{Equity}}$
Earnings per share	$\dfrac{\text{Profit for the period}}{\text{Average number of shares}}$
Cash earnings per share	$\dfrac{\text{Profit for the period + depreciation}}{\text{Average number of shares}}$
Equity per share	$\dfrac{\text{Equity}}{\text{Number of shares at the close of the period}}$
Dividend per share	$\dfrac{\text{Dividend for the period}}{\text{Number of shares}}$
Dividend yield	$100 \times \dfrac{\text{Dividend per share}}{\text{Share price at the close of the period}}$
Payout ratio (%)	$100 \times \dfrac{\text{Dividend per share}}{\text{Earnings per share}}$

1) Capital employed = Operating capital – Net tax liabilities

2) Average for the financial period

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Graphic design: Incognito
Photos: Mats Vuorenjuuri and Stora Enso image archive
Printing: Hansaprint
Cover stock: Chromocard 200 g/m², Stora Enso, Fors Mill
(ISO 14001-certified and EMAS-registered S-000001)
Text stock: SpectraPress 48.8 g/m², Stora Enso, Varkaus Mill
(ISO 14001-certified and EMAS-registered FIN-000015)