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Profit Enhancement Plan

Stora Enso North America

27 August 2002

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Highlights



- Weak product markets and poor profitability of North American operations prompts decisive action
- Profit enhancement plan for the North American division will significantly improve its competitiveness
- Plan to result in annual profit improvement of North American division of some EUR 85 million (USD 80 million) (EBITDA)
- Impairment charge of EUR 1 150 million (USD 1 081 million)
- The full EPS effect of reduced amortisations and enhancement plan estimated at +EUR 0.13 once fully implemented (2005)
- Group's strategy for development in North America remains unchanged

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Background

Acquisition of Consolidated Papers September 2000



Rationale

- To expand into the world's largest paper market by acquiring the premier coated and SC paper producer in North America, creating a substantial platform for future growth

Principal terms of transaction:	
Price	\$ 39/share (92 million shares)
Equity value	\$ 3.6 billion
Enterprise value	\$ 4.4 billion
Form of consideration	50% cash 50% Stora Enso ADRs
Goodwill (IAS)	\$ 1 710 million

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Post-acquisition improvements



- New management structure and governance model established
- Strategic and operational plans implemented
- Integration of sales and marketing forces completed
- Fine paper grades rationalised, strengthening market position
- Major cost-efficiency initiatives taken, including:
 - a reduction of about 1 500 (20%) of the workforce
 - shutting down unprofitable production lines (3)
- Substantial synergies realised: USD 66 million in 2001; USD 45 million in 1H 2002

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**Weak product markets
in North America**

End use market indicators for publication papers



Following a sharp decline in 2001, the development for 2002 is continuing to be negative.

Change over previous year (%)	1999	2000	2001	2002E
Magazine Ad Pages	5.2	10.1	-11.5	-3.2
Commercial Printing	1.0	1.5	-3.3	-1.5
Printing & Publication	-1.0	1.5	-4.8	-4.9
Catalogues Mailed	2.3	6.3	-2.3	-2.4

Source: RISI

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Profit Enhancement Plan

Key elements



Restructuring selected manufacturing assets

- Wisconsin Rapids Pulp Mill to be converted to fully bleached fine paper pulp

Targeted capital investments

- Rebuilds at Wisconsin Rapids (PM16), Kimberly (PMs 96 and 97) and Biron (PM26)
- Modifications at Niagara (PMs 43 and 44) and Whiting (PM64)
- Expansion of the thermomechanical pulp line at Port Hawkesbury, subject to cost objectives being met

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Key elements (cont.)



Permanent shutdowns of production units

- PM12 at Wisconsin Rapids to be shut down by the end of 2002
- Shut down of PM24 at Biron by the end of 2003, dependent on market conditions
- Shut down of groundwood and high-yield pulp operation at Port Hawkesbury
- Closure of the groundwood pulp mill at Kimberly by the end of 2002

Workforce reduction

- Approximately 500 jobs eliminated, primarily at Wisconsin Rapids, Biron, Kimberly and Port Hawkesbury

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Impact



- Improves significantly Stora Enso North America's competitive position and profitability
- No material effect on the division's production capacity

Capital expenditure ¹⁾	€ 266 million (\$ 250 million)
Improvement of EBITDA ²⁾	€ 85 million (\$ 80 million)

1) to be spread over the forthcoming 36 months

2) full effect from 2005 onwards

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Compared to current situation:

- Production from closed machines transferred to more competitive assets
- Improved product portfolio; enhanced quality
- Improved productivity
- Improved cost competitiveness
- Improved utilisation of local wood resources through converted chemical pulp mill

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Product area profile post-plan



Woodfree coated

- Best asset quality in North America, with integrated pulp capacity

Coated groundwood

- Biron PM26 in North American highest quartile
- Improved overall competitiveness

SC A

- The leading North American producer: two highest quartile machines

Newsprint

- 2nd quartile cost position through streamlined pulp assets and efficiency

Speciality papers

- Strengthened position in the global speciality papers business

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Impairment Charge

Impairment test (IAS)

- Impairment test (IAS 36, impairment of assets) is based upon discounted cash flow analysis of cash generating units
- Main assumptions used:
 - Stora Enso North America's detailed forecasts for 2002
 - RISI price forecasts for future years - product price trends and cyclical demand data
 - WACC of 9.5% (pre-tax)
 - Cost inflation: 2.0% in first two years; 2.4% thereafter

Result of impairment test and closure of assets

- Cash flow model indicates impairment at Stora Enso's North American Magazine and Fine Paper cash generating units
- Impairment charge of EUR 1 150 million, assuming an average EUR/USD rate of 0.9400
- Enhancement plan provisions total EUR 80 million, of which EUR 53 million are non-cash
- Impact on key Group figures:
 - Debt/equity deteriorates by 0.07
 - One-time charge taken in Q3 2002 of EUR 1.36/share
 - Capital employed reduced by EUR 1 203 million

Financial impact



€ million	One time charges	Ongoing annual benefit
Goodwill amortisation (Magazine)	-795	+44
Excess value depreciation (Magazine)	-231	+19
Total Magazine paper segment	-1 026	+63
Goodwill amortisation (Fine Paper)	-124	+7
Depreciation due to asset closure (Fine Paper)	-53	+5
Total Fine Paper segment	-177	+12
Total (non-cash items)	-1 203	+75
Other provisions (cash item)	-27	-
Per share (€)	-1.36	+0.08
Estimated additional per share earnings impact of enhancement plan from 2005 onwards		+0.05

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Strategic Implications

Implications for corporate strategy



- Stora Enso is determined to remain a major player in the world's biggest paper market
- The search continues for complimentary acquisitions/mergers in core product areas, based on SENA platform
- Potential acquisitions must meet with the Group's ROCE target, be EPS accretive (after synergies) and enhance average asset quality

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Summary

Summary



A decisive plan to improve Stora Enso North America:

- Increased asset quality
- Increased cost competitiveness
- Improved product profile and quality
- Impairment charges and other provisions of EUR 1 230 million (USD 1 156 million)
- EPS improvement of EUR 0.08 due to the decreased amortisations and depreciations
- An additional EUR 0.05 increase in EPS from 2005 onwards due to the enhancement plan

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Appendix

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In brief - 2001



Sales	\$ million	2 400
Sales	1 000 tonnes	2 500
of which imported	1 000 tonnes	280
Production capacity	1 000 tonnes	2 700
Operating capital	\$ million	5 200
Number of employees		6 300
Production units		10
Sales & marketing offices		19

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Present capacities



1 000 metric tonnes	Annual Capacity	Number of PMs
Coated Groundwood (LWC)	1 015	9
Uncoated Groundwood (SC A)	540	2
Newsprint	190	1
Coated Fine Papers	720	4
Specialty Papers	175	4
Recycled Board	35	1
Total	2 675	21

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Free cash flow



	2000	2001	2002
\$ million	4 months	12 months	6 months
EBITDA	102	282	50
Change in working capital	20	-	16
Operating cash flow	122	282	66
Capital expenditure	-27	-71	-41
Free cash flow	95	210	25

Apparent consumption in the US for selected paper grades

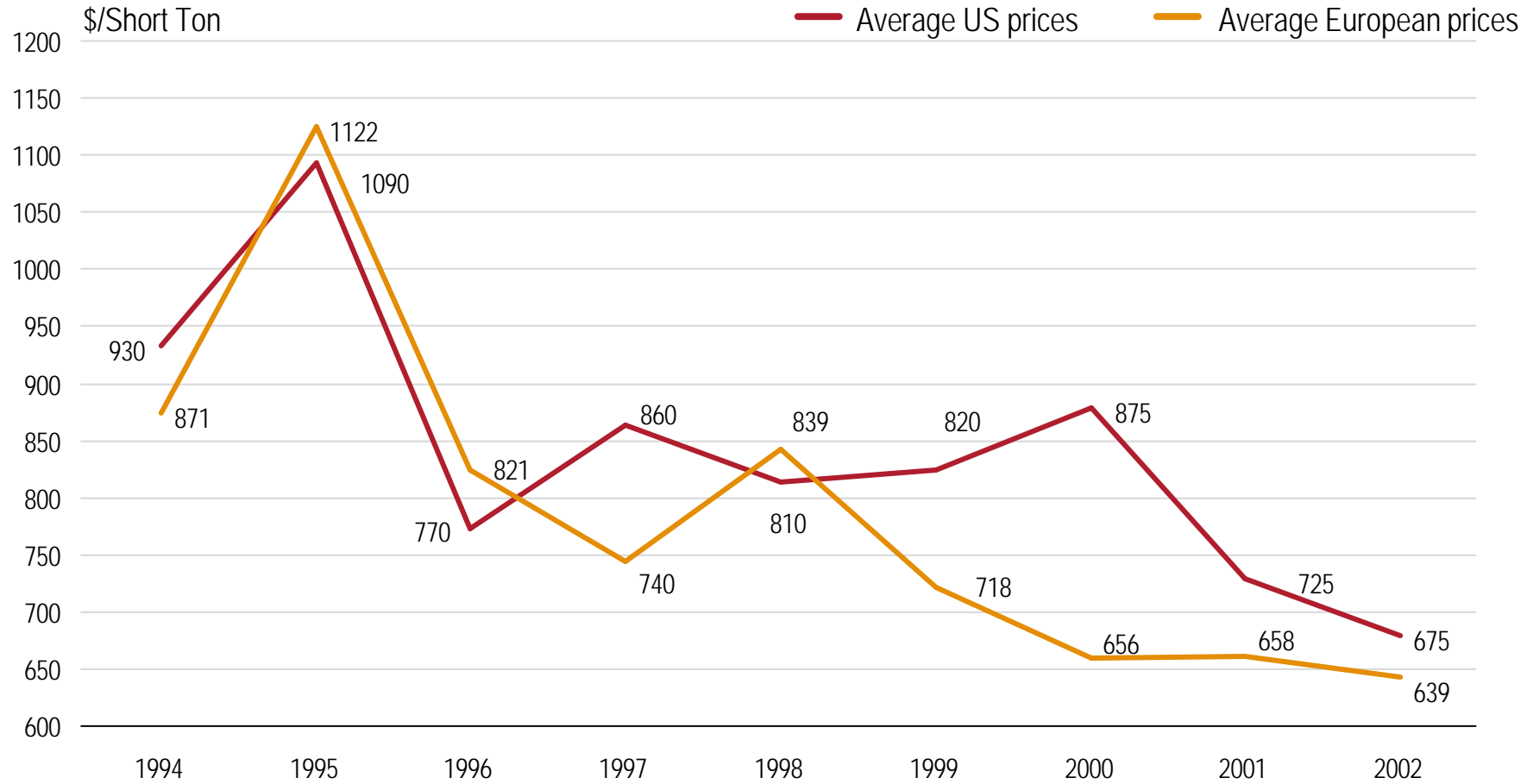


1 000 short tons	1999	2000	2001	2002E
Coated Freesheet	5 535	5 632	4 902	4 924
% change	6.6	1.7	-13.0	0.4
Coated Groundwood	5 369	5 636	5 407	5 152
% change	-0.5	5.0	-4.1	-4.7
Uncoated Groundwood	5 172	5 484	5 158	5 070
% change	3.6	6.0	-6.0	-1.7

Source: RISI

Product price¹⁾ development

Coated No. 5 40-lb.

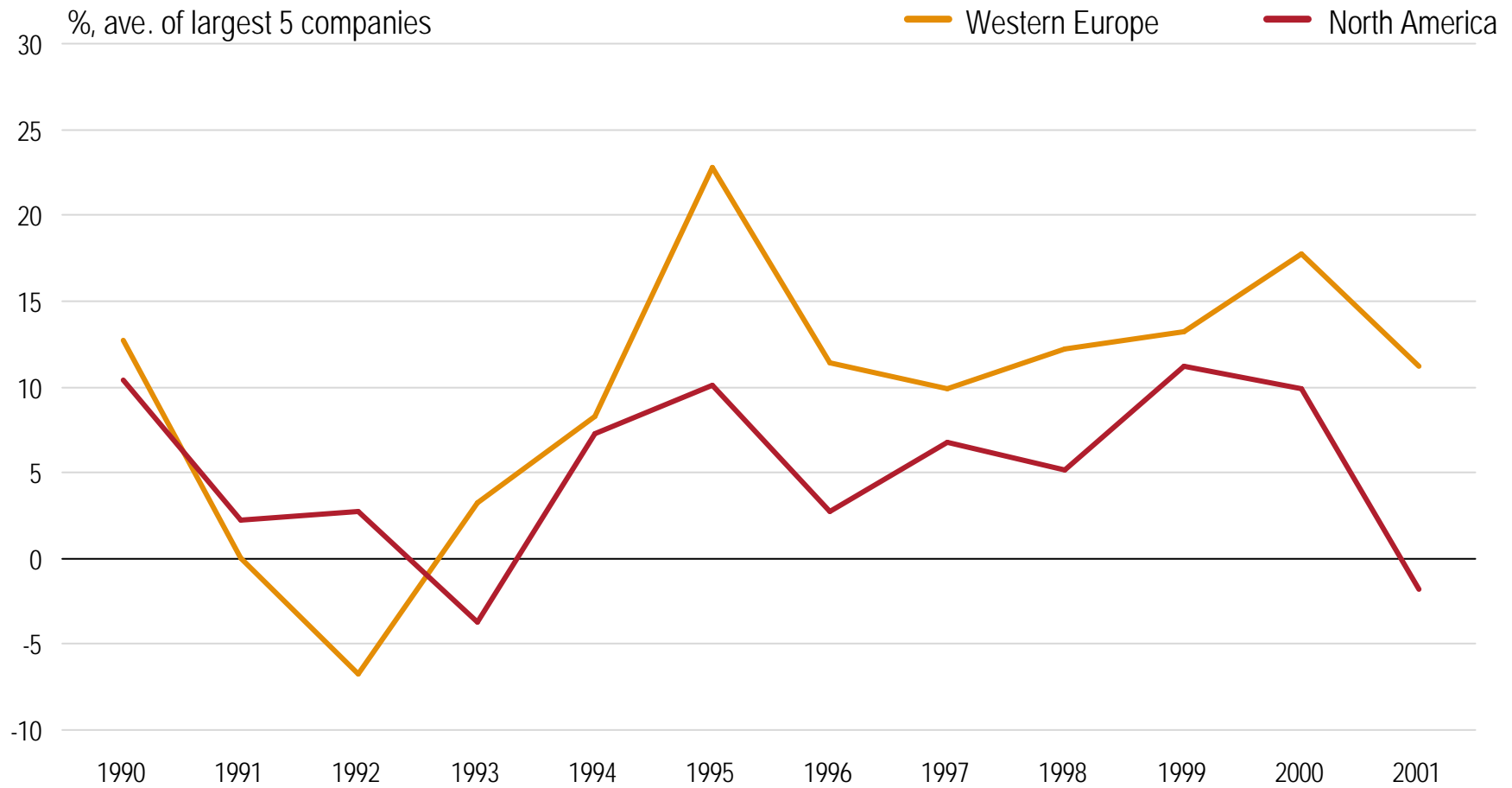


Source: RISI

¹⁾ Average delivered prices

Return on equity

Largest paper producers



Source: RISI