

# Focus on the future

## **Financial Targets and Performance**

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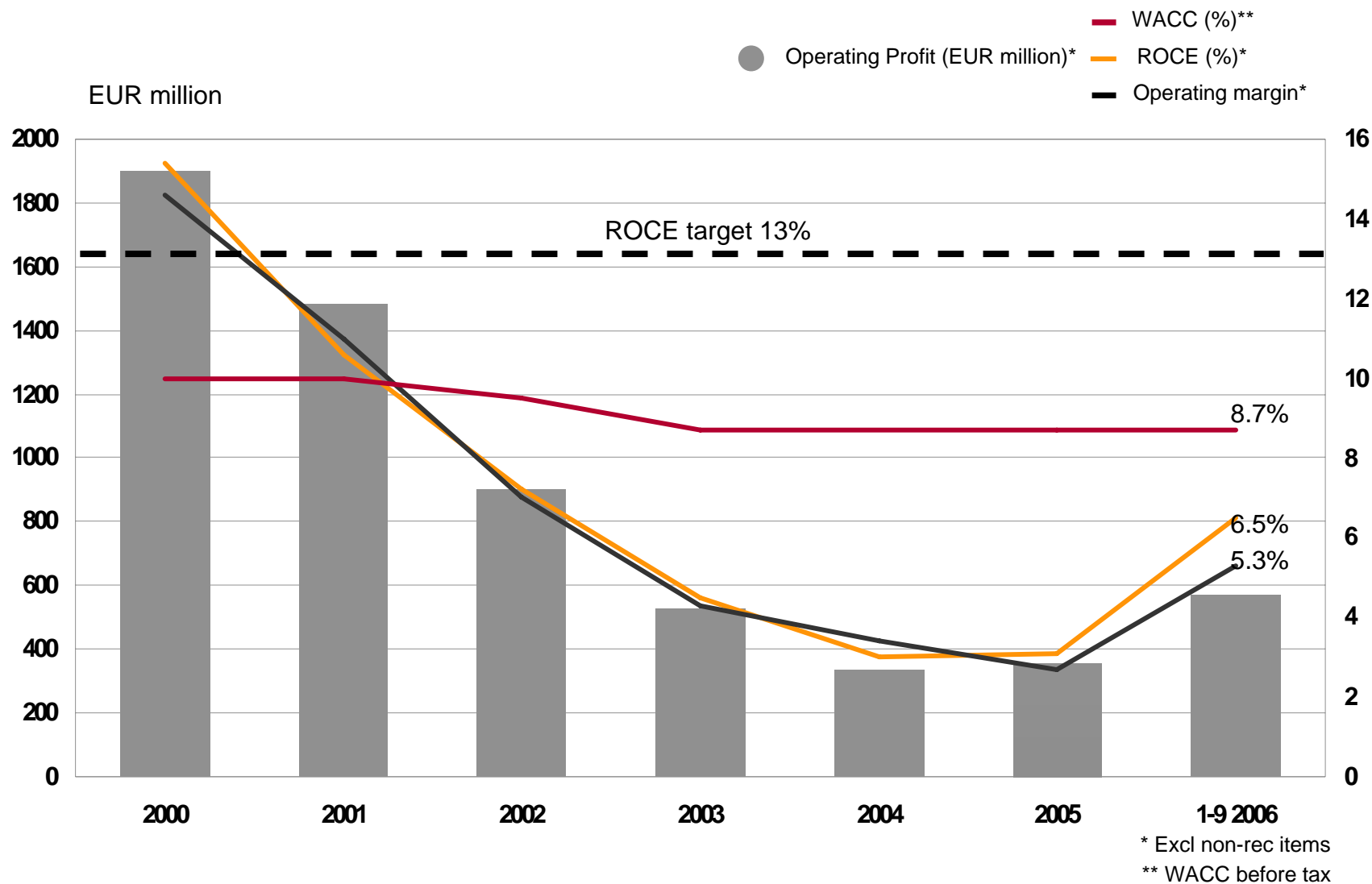
**Kvarnsveden Mill, 30 November 2006**

# Focus on the future

**Group Financial Targets**

# Striving to Create Acceptable Returns

## 2000 - Q3 2006



# Operating Cash Flow

EUR million	2005	1-9/2006
Sales	13 188	10 862
EBITDA*	1 497	1 382
Change in Operative Working Capital**	-486	-73
<b>Operating cash flow</b>	<b>1 011</b>	<b>1 309</b>
CAPEX	-1 145	-404
Acquisitions	-380	-355
Disposals	105	651
<b>Cash flow after investments</b>	<b>-409</b>	<b>1 201</b>
Net financial items***	-165	-170
Taxes	-209	-132
Dividend	-365	-355
Share buy-backs	-345	0
<b>Cash flow</b>	<b>-1 493</b>	<b>544</b>

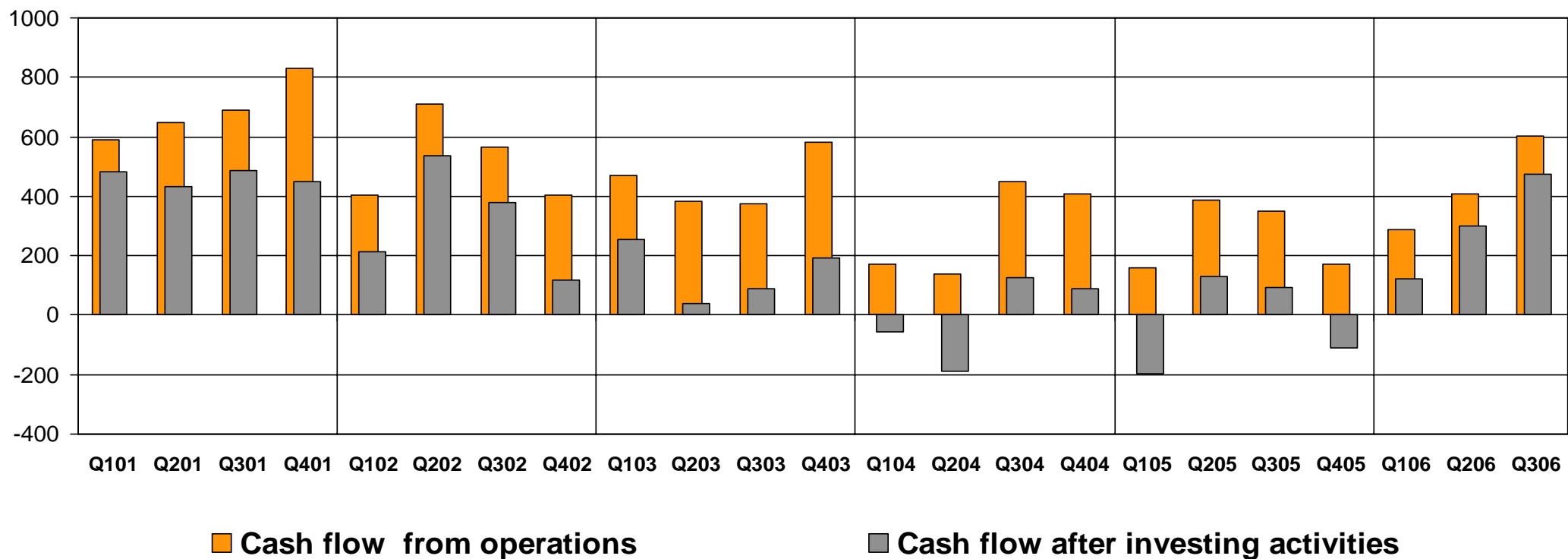
\* Excl. non-recurring items and non-cash valuations

\*\* Change in inventory, trade receivables and trade payables

\*\*\* Cash flow excl. results in associated companies

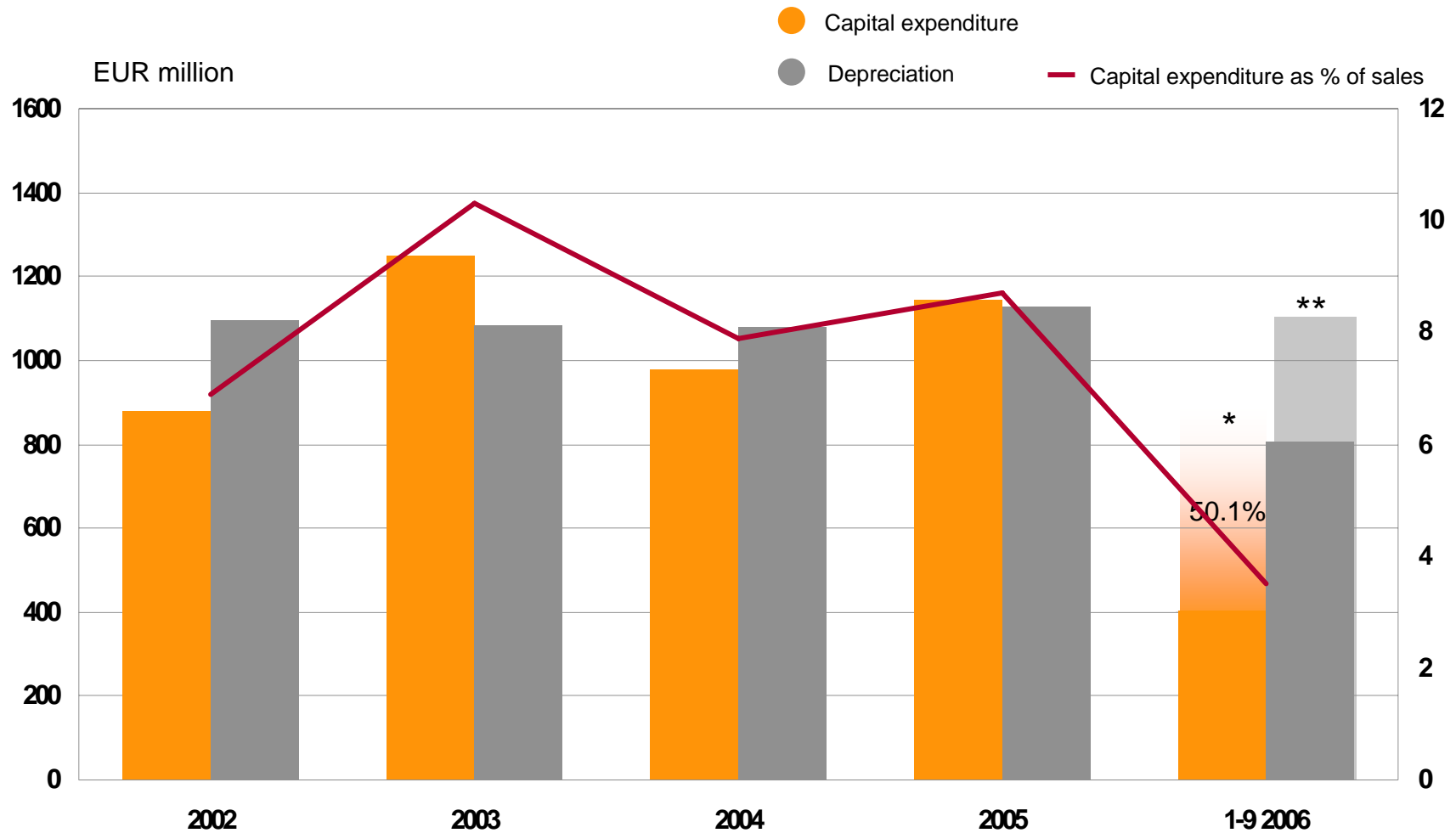
# Operating Cash Flow

## EUR million



# Capital Expenditure and Depreciation

## 2002 – Q3 2006

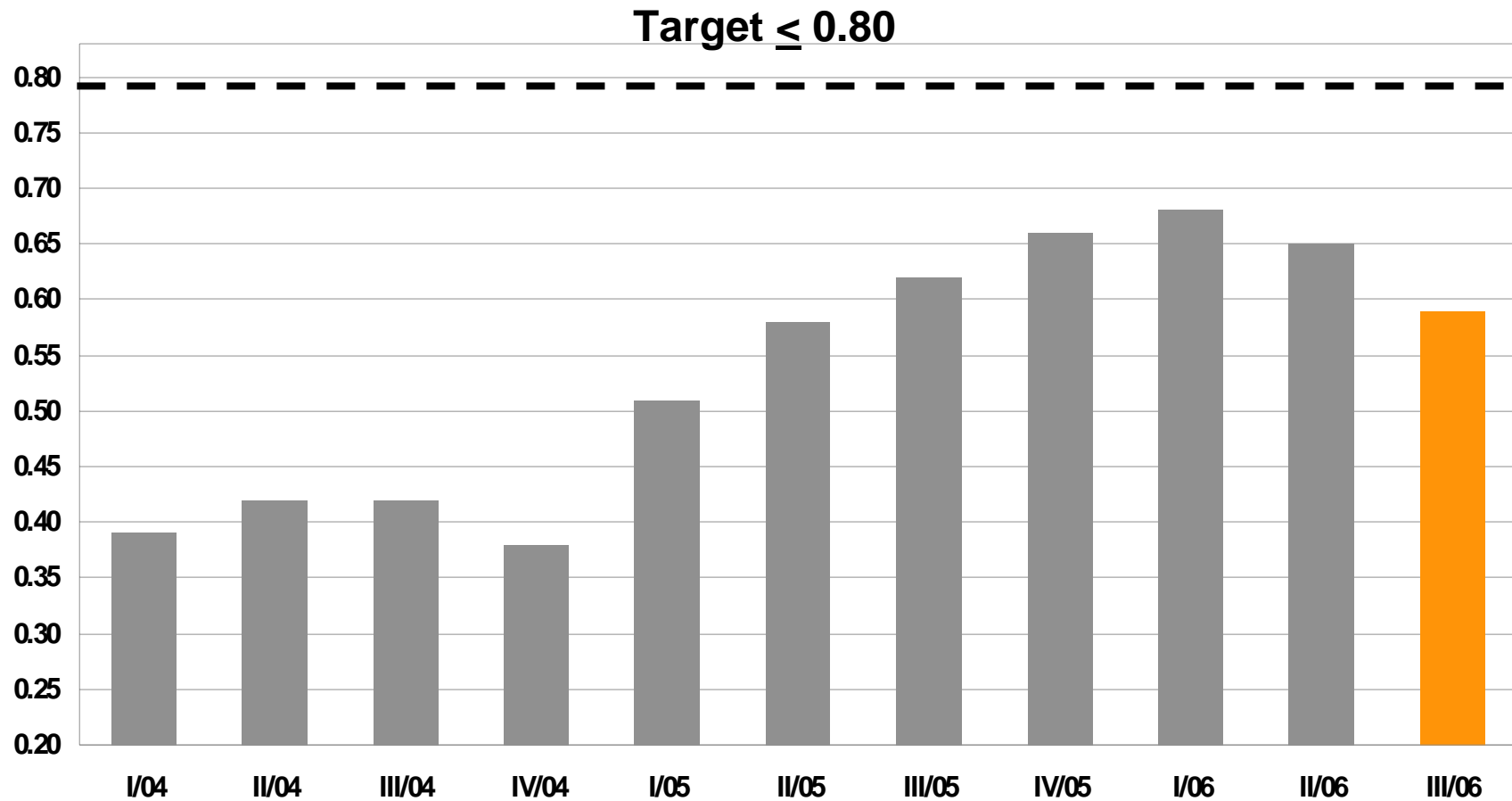


\* Capex expected to be below the previously communicated target of 800 million for 2006

\*\* Est. scheduled depreciation EUR 1.1 billion for 2006

# Debt/Equity Ratio

## 2004 – Q3 2006



# Solicited Credit Ratings

Rating agency	Long/short-term rating	Valid from
Standard & Poor's	BBB (stable) / A2	23 Feb 2006
Moody's	Baa3 (stable) / P3	16 Nov 2006

Moody's downgrade to Baa3 (stable) / P3 from Baa2 (stable) / P2 on 16 November

- *'Low pricing environment and rising input costs resulting in:*
  - *Weak credit coverage ratios*
  - *Profit enhancement efforts acknowledged but free cash flow still not in-line with rating level*
  - *Moody's balance sheet adjustments results in comparably weaker ratios'*

In the strong credit market that is prevailing, the reaction to the downgrade was limited

# Focus on the future

**Asset Restructuring and  
Profit Improvement**

# Profit 2007 Achievements by Q2 2006

The EUR 300 million target is expected to be clearly exceeded

## Production costs

- ✓ Original target EUR 160 million
- ✓ **Achieved by Q2 EUR 104 million**

*Target most likely to be exceeded by mid 2007*

## Support & administration costs

- ✓ Original target EUR 120 million
- ✓ **Achieved by Q2 EUR 40 million**

*Slight delay expected in reaching the target by mid 2007*

## Sales & production mix

- ✓ Original target EUR 20 million
- ✓ **Achieved by Q2 EUR 15 million**

*Target most likely to be exceeded by mid 2007*

**Target:**  
EUR 300 million  
(pre-tax), by  
mid 2007

**Achieved**  
EUR 159 million,  
by mid 2006

- Half of the total improvement from reduced fixed costs
- Target is based on 2005 price and cost levels

# Profit 2007

## Main measures and achieved savings by Q2 2006

### Reduction in production costs: EUR 104 million

- Energy-saving programmes at various mills
- Reduced use of chemical pulp and recipe changes
- More efficient and globally co-ordinated purchasing

### Reduction in support and administration costs: EUR 40 million

- Reorganisation of the sales network and logistical operations
- Establishment of Human Resources and Accounting shared services
- Integrating administration of various mills in Finland, Sweden and Germany
- Reorganising Financial Services (Treasury) by moving a major part of the operations from London to Helsinki and moving Fine Paper management from London to Helsinki

### Improvement in sales and product mix: EUR 15 million

- Improvements in product portfolios at various mills
- Better customer focus and pipeline management

# Mills Under Scrutiny

## Decisions made as of 4 October 2006

### Two mills planned to be closed

1. Reisholz Mill, Germany
2. Berghuizer Mill, Netherlands

#### Reisholz and Berghuizer

- Have not been able to sufficiently improve profitability

Long-term competitiveness not secured

### Two mills to continue operations

1. Summa Mill, Finland
2. Uetersen Mill, Germany

#### Summa

- Has improved profitability through
  - Cost basis improvements
  - Product portfolio realignment

#### Uetersen

- Strategic product portfolio offering with Oulu Mill
- Has improved financial performance

Are expected to operate without new investments for next several years

# Asset Performance Review (APR)

## Financial effect of actions (FY 2006 Reporting)

\*EUR million

\*\*External sales only

Division	Mill	Action	Month	Grade	Capacity	Sales*	Capital gain/loss*
Publication Paper	PM3 & PM4 Corbehem Mill	Closed	Jun 2006	LWC	250 000 t	-150	+/-0
	Wolfsheck	Divestment completed	Aug 2006	Changing from SC	155 000 t	-65	-47
	Reisholz	Planned closure	-	SC	215 000 t	-	-
Fine Paper	Grycksbo Mill	Divestment completed	Mar 2006	WFC	280 000 t	-140	-20
	Varkaus PM1	Planned closure – end 2006	-	WFC	95 000 t	-	-
	Celbi Mill	Divestment completed	Jun 2006	Short-fibre pulp	305 000 t	-82**	170
	Berghuizer	Planned closure	-	WFU	235 000 t	-	-
Packaging Boards	Hammarby Mill	Closed	Jun 2006	PE-Coating	35 000 t	N/A	-3
	PM31 Stevens Point Mill	Closed	Mar 2006	Coated Specialties	25 000 t	-20	-12
	Pankakoski Mill	Divestment completed	Jul 2006	FBB, WPB, SBS	95 000 t	-60	-11
Forest Products	Linghed Sawmill	Divestment completed	Mar 2006	Redwood	40 000 m <sup>3</sup>	-7	+/-0
					<b>TOTAL</b>	<b>-524</b>	<b>77</b>

**Aggregate EBIT impact slightly negative- owing largely to Celbi profitability**

# Stora Enso Asset Restructuring

## Stora Enso capacity reductions since 2000

Europe	Date	Grade	Capacity reduction
Summa PM 1	Feb 2002	Newsprint	110 000
Langerbrugge PM 2	Mar 2003	SC	115 000
Kvarnsveden PM 9	Jun 2005	Newsprint	140 000
Corbehem PM3 and PM4	Jun 2006	LWC	250 000
Reisholz Mill <sup>2</sup>	-	SC	215 000
Nymölla CM <sup>1</sup>	Feb 2002	CWF	150 000
Varkaus PM 1	End 2006	WFU	95 000
Berghuizer Mill <sup>3</sup>	-	WFU	235 000
Mölndal	Apr 2000	FBB	45 000
Newton Kyme	Jan 2001	FBB	35 000
<b>TOTAL</b>			<b>1 390 000</b>

North America	Date	Grade	Capacity reduction
Whiting PM 61	Oct 2000	CMR	60 000
Wisc Rapids PM 15	Oct 2000	Fine paper	70 000
Biron PM 23	Feb 2002	CMR	60 000
Wisc Rapids PM 12	Jan 2003	Fine paper	90 000
Biron PM 24	Sep 2003	CMR	70 000
Stevens Point PM 32	Sep 2003	Coat. Spec.	25 000
Stevens Point PM 31	Mar 2006	Coat. Spec.	25 000
<b>TOTAL</b>			<b>400 000</b>

<sup>1</sup> Production as UWF continues

<sup>2</sup> Intention to close Reisholz Mill announced

<sup>3</sup> Intention to close Berghuizer Mill announced

**Total of 1 790 000 tonnes**

# Stora Enso Asset Restructuring

## Stora Enso capacity additions since 2000

Europe/Asia	Date	Net production increase
Rebuild of Uetersen PM 2	Dec 2001	31 000
Rebuild of Oulu PM 6	Nov 2001	95 000
Rebuild of Langerbrugge PM 3	Nov 2002	50 000
Langerbrugge PM 4 (new)	Jun 2003	390 000
Production increase Summa PM 3	Jan 2002	15 000
Rebuild of Corbehem PM 5	Mar 2004	55 000
Quality upgrade of Nymölla PM1	Jan 2004	8 500
Modernisation of Sachsen PM 1	Sep 2003	21 000
Rebuild of Veitsiluoto PM 3	Dec 2003	114 000
Rebuild of Kotka PM 2	Dec 2003	26 000
Kvarnsveden PM 12 (new)	Oct 2005	426 000
Rebuild of Summa PM 2	Apr 2005	13 000
Rebuild of Maxau PM 6	Sep 2004	120 000
Rebuild of Suzhou PM 1	Feb 2005	50 000
Rebuild of Fors BM 2 and boiler	Nov 2007	13 000
<b>TOTAL</b>		<b>1 427 500</b>

North America	Date	Net production increase
Rebuild of Biron PM 26	Feb 2005	55 000
Rebuild of Duluth PM 1	Jun 2002	15 000
Rebuild of Kimberly PM 96*	May 2003	25 000
Rebuild of Kimberly PM 97	Jun 2004	80 000
Rebuild of Wisconsin Rapids PM 16	Dec 2000	15 000
Rebuild of Wisconsin Rapids PM 16	Feb 2004	75 000
Modernisation of Whiting PM 64	Apr 2006	15 000
<b>TOTAL</b>		<b>280 000</b>

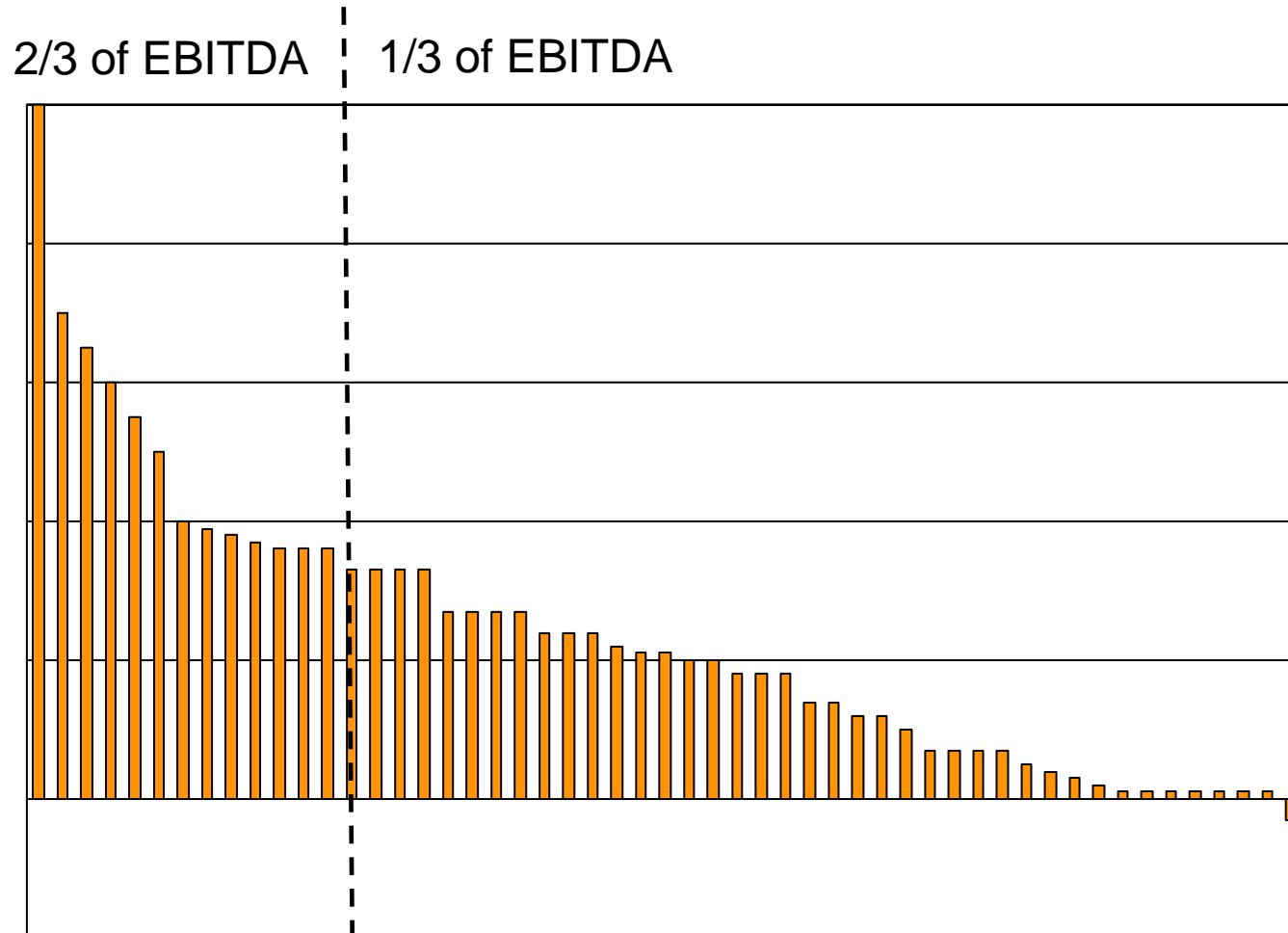
\* Rebuild from LWC to WFC

**Total of 1 707 500 tonnes**

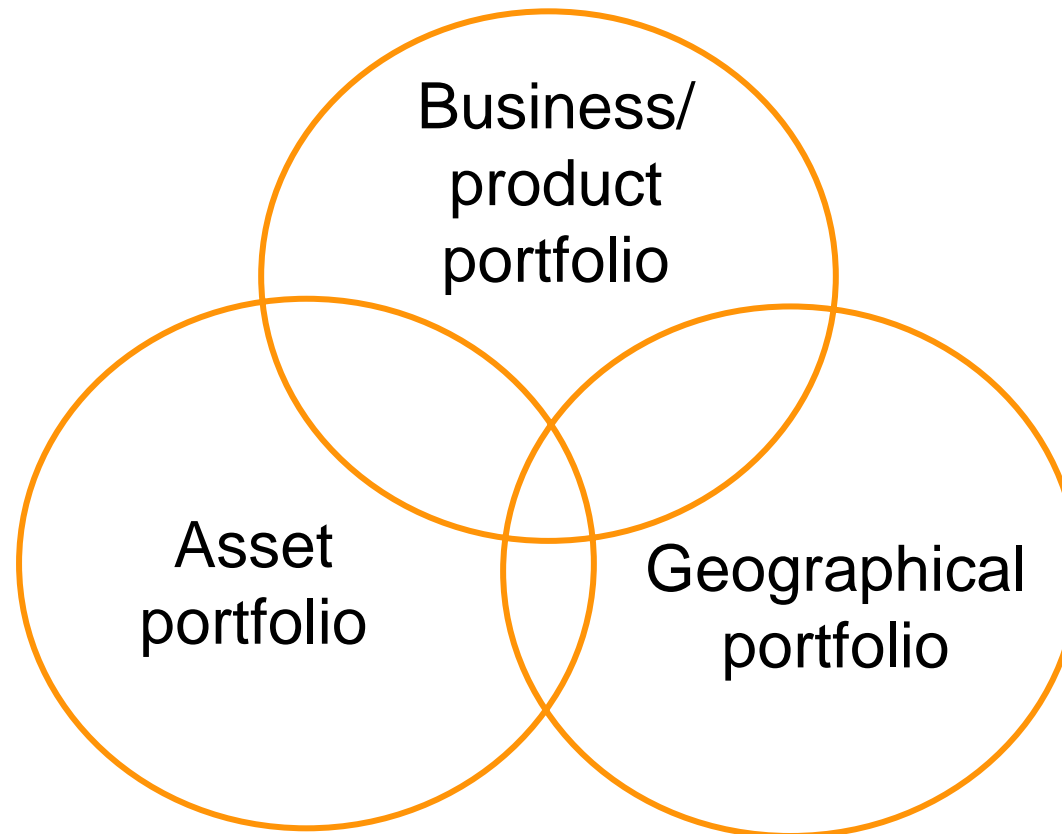
**82 500 t of net capacity reductions since 2000 – equal to 0.52% of average annual capacity during the period**

# EBITDA Generation

## Concentrated to very few mills



# Current Stora Enso Portfolio Views



# Focus on the future

**Stora Enso Today**

# Stora Enso Today

- Focus on cash flow generation
- Results improving
- Asset Performance Review and Profit 2007 progressing well
- Jouko Karvinen will join Stora Enso on 1 January
  - To become CEO after AGM on 29 March 2007

# Focus on the future

**Q&A**

# Focus on the future

**Appendix**

# Jouko Karvinen to become CEO

- Currently CEO of Philips Medical Systems Division and member of the Board of Management of Royal Philips Electronics
- 25-year career in industrial automation and healthcare technologies in business-to-business markets
- Master of Science in Electronics and Industrial Economics
- Will join Stora Enso on 1 January 2007
  - Taking up the position of CEO following the AGM on 29 March 2007



Jukka Härmälä will leave the position of CEO following the AGM on 29 March 2007, and will continue to undertake special assignments specified by the Board of Directors until the end of August 2007

# Financial Highlights Q3 2006

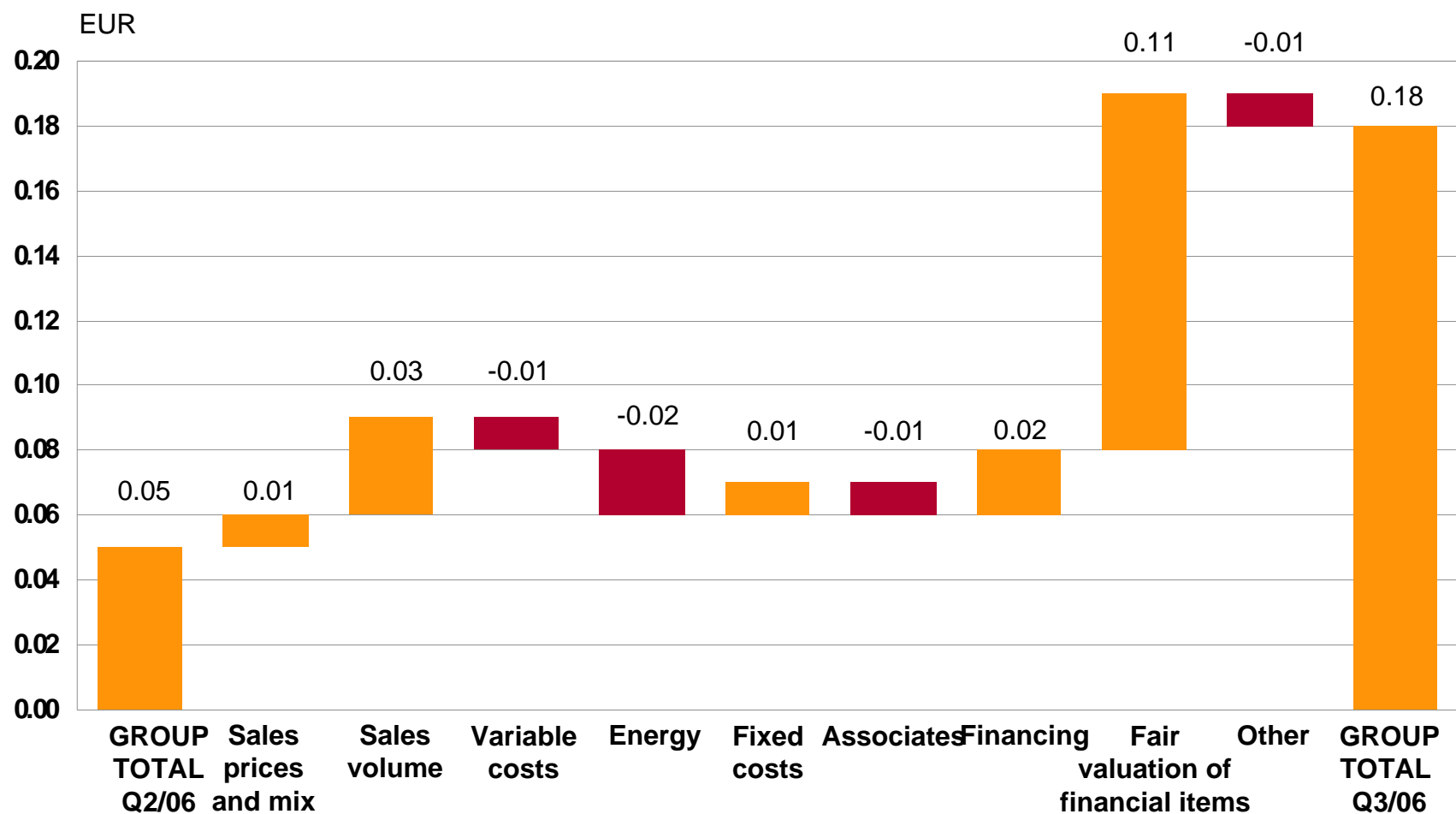
	III/05	II/06	III/06
Sales (EUR million)	3 219.2	3 616.3	3 638.1
Operating profit* (EUR million)	106.2	182.2	195.2
Profit before tax* (EUR million)	93.0	53.2	197.0
EPS (EUR)	0.08	0.05	0.07
EPS* (EUR)	0.08	0.05	0.18
Cash EPS* (EUR)	0.44	0.39	0.52
Debt/Equity	0.62	0.65	0.59

\*excluding non-recurring items

- Cash flow after investing activities improved to EUR 473.8 (EUR 299.6) million
- Operating profit increased in Packaging Boards and Wood Products, remained unchanged in Publication Paper and decreased in Fine Paper
  - Publication paper profitability was burdened by problematic situation in Corbehem Mill as a consequence of PM closures and the standstill at Port Hawkesbury Mill
  - Fine paper operating profit decreased due to Celbi Pulp Mill divestment, and higher maintenance costs

# Change in EPS

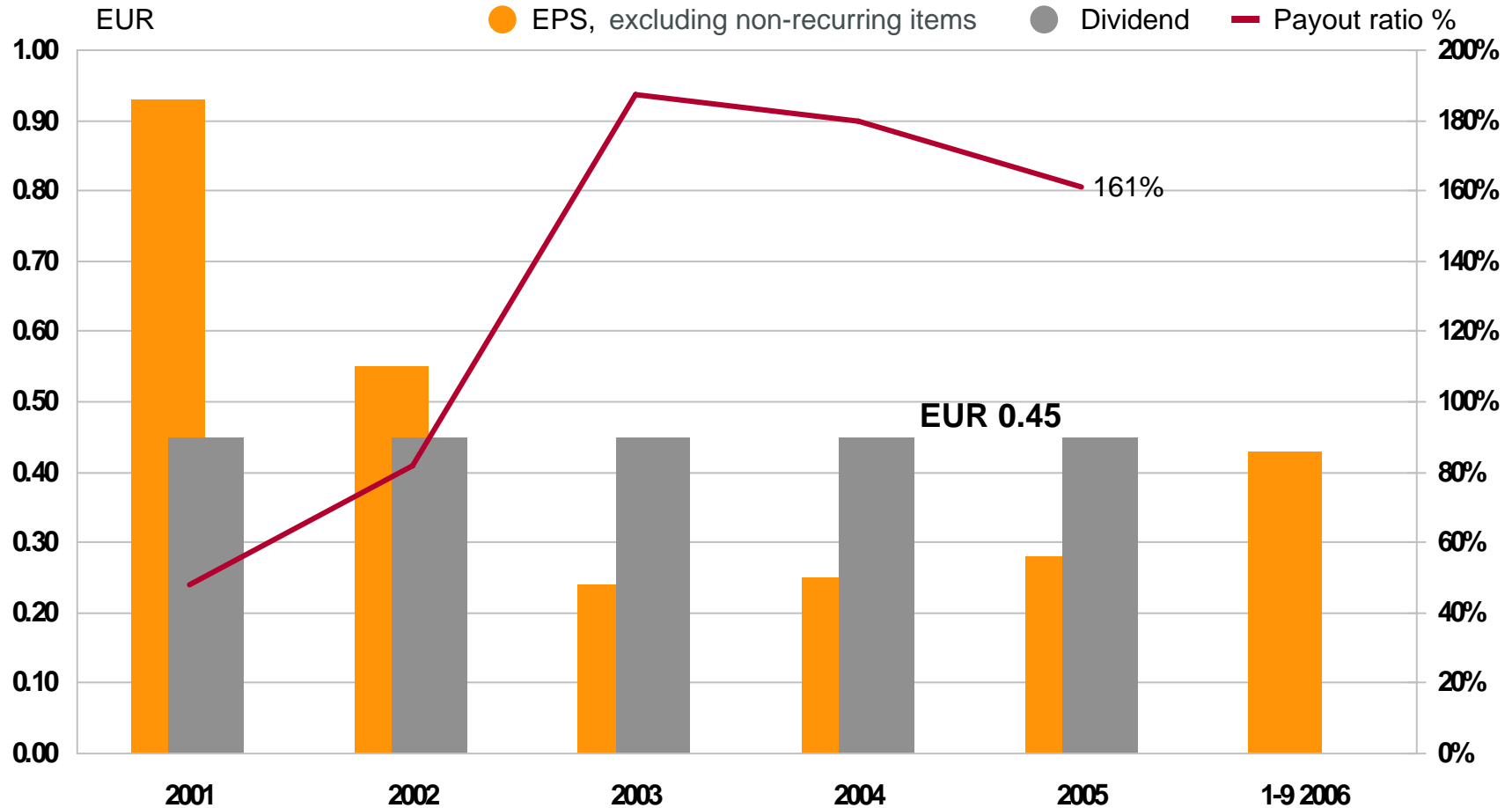
## Q2/06 – Q3/06



Excluding non-recurring items

# Earnings Per Share and Dividend

## 2001 - Q3 2006



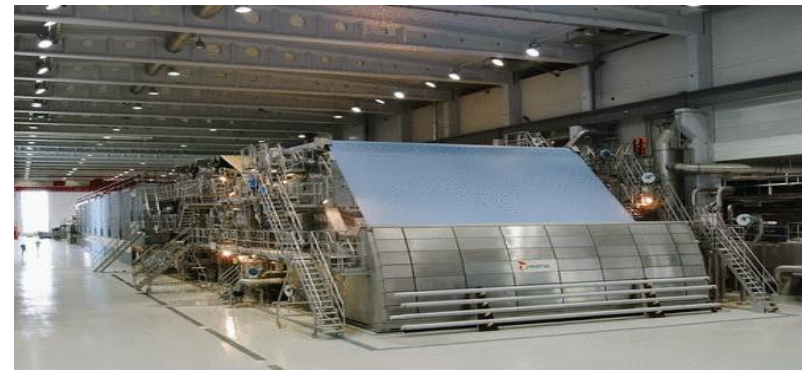
# Operating Profit by Division

EUR million	III/05	IV/05	I/06	II/06	III/06
Publication Paper	67.9	72.3	70.3	55.3	57.0
% of sales	5.8	5.6	6.0	4.8	4.6
Fine Paper	-1.2	28.9	52.7	46.3	32.4
% of sales	-0.2	3.9	6.8	6.3	4.5
Packaging Boards	73.5	62.6	99.5	70.8	93.7
% of sales	9.3	7.5	11.4	8.0	10.3
Wood Products	-1.8	-7.2	3.8	14.9	21.4
% of sales	-0.5	-1.8	1.0	3.4	5.1

excluding non-recurring items

# Cost Development

- Total costs are expected to increase by between 2.5 and 3% (gross) in 2006 vs 2005



# Composition of Costs in 2005

## Excl non-recurring items

Costs	% of costs
<b>Variable costs</b>	<b>67</b>
Fibre	19
Chemicals and Fillers	9
Other Materials	2
Energy	8
Production Service	12
Logistics & Commissions	12
Other Variable	6
<b>Fixed costs</b>	<b>24</b>
Personnel	17
Other	7
<b>Depreciation and impairment</b>	<b>9</b>
<b>Total costs, %</b>	<b>100</b>
<b>Total costs, EUR million</b>	<b>12 830</b>

# Focus on the future

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