

# Paper, packaging & forest products

**Annual General Meeting**

29 March 2007

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.

# Paper, packaging & forest products

**Year 2006 in Brief**

## Year 2006 in Brief

- Profits increased from previous year
- Price increases in newsprint, uncoated fine paper and wood products were implemented
- Annual results boosted by profit improvement actions
- Profit 2007 targets reached ahead of schedule

## Year 2006 in Brief (cont.)

- Joint-venture agreement with Shandong Huatai Paper to form a publication paper company in China.
- Decision to build third corrugated packaging plant in Russia, at Lukhovitsy.
- Stora Enso Arapoti acquired from International Paper. The deal comprised a paper mill producing coated mechanical paper, a sawmill and plantations.
- Investments in Nebolchi Sawmill and Impilahti Sawmill in Russia to enhance the competitiveness of Stora Enso's sawmilling business and wood procurement in Russia.
- Land acquisitions continued in China and South America

## Year 2006 in Brief (cont.)

Stora Enso's profit improvement actions:

- Profit improvement programme Profit 2007 target of EUR 300 million achieved ahead of schedule
- Asset Performance Review ("APR")
  - 405 000 tonnes of capacity closed
  - 835 000 tonnes of capacity divested
  - Berghuizer mill will be closed in phases (245 000 tonnes)
    - PM 7: 16 April 2007
    - PM 8 : 31 October 2007
    - About 80 000 tonnes of capacity will be transferred to Nymölla Mill, Sweden, Nymölla Mill's capacity remains unchanged
  - Planned closures of Reisholz Mill in 2007 (215 000 tonnes)

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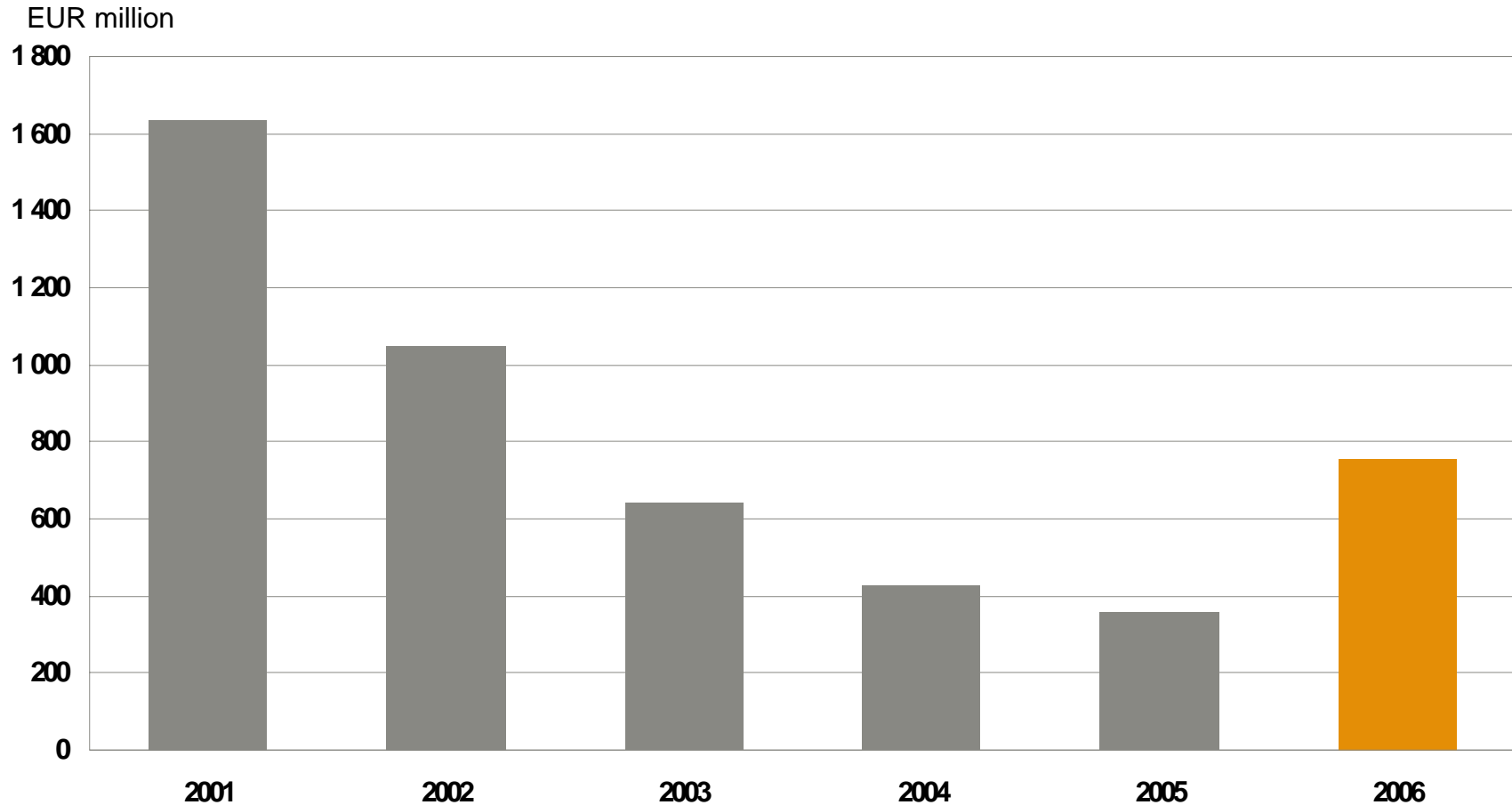
**Results in 2006**

# Income Statement

| EUR million  | 2005          | 2006         |
|--|---------------|--------------|
| Sales  | 13 187.5      | 14 593.9     |
| Expenses and other business income including provisions          | -11 819.6     | -12 712.4    |
| Depreciation and impairment charges                              | -1 427.7      | -1 257.7     |
| Operating profit / (loss)  | -59.8         | 623.8        |
| Share of results in associated companies                         | 67.2          | 87.4         |
| Financial income and expenses                                    | -151.6        | -79.4        |
| Profit / (loss) before Tax                                       | -144.2        | 631.8        |
| Income tax   | 36.8          | -42.6        |
| <b>Net Profit / (loss) for the Year</b>                          | <b>-107.4</b> | <b>589.2</b> |
| Attributable to equity holders of the Parent Company             | -111.1        | 585.0        |
| Attributable to Minority interests                               | 3.7           | 4.2          |
| <b>Operating profit for the period excl. non-recurring items</b> | <b>357.5</b>  | <b>757.5</b> |
| <b>Net profit for the period excl. non-recurring items*</b>      | <b>226.6</b>  | <b>435.3</b> |
| <b>Earnings per Share, EUR (excluding non-recurring items)</b>   | <b>0.28</b>   | <b>0.55</b>  |

\* Attributable to equity holders of the Parent Company

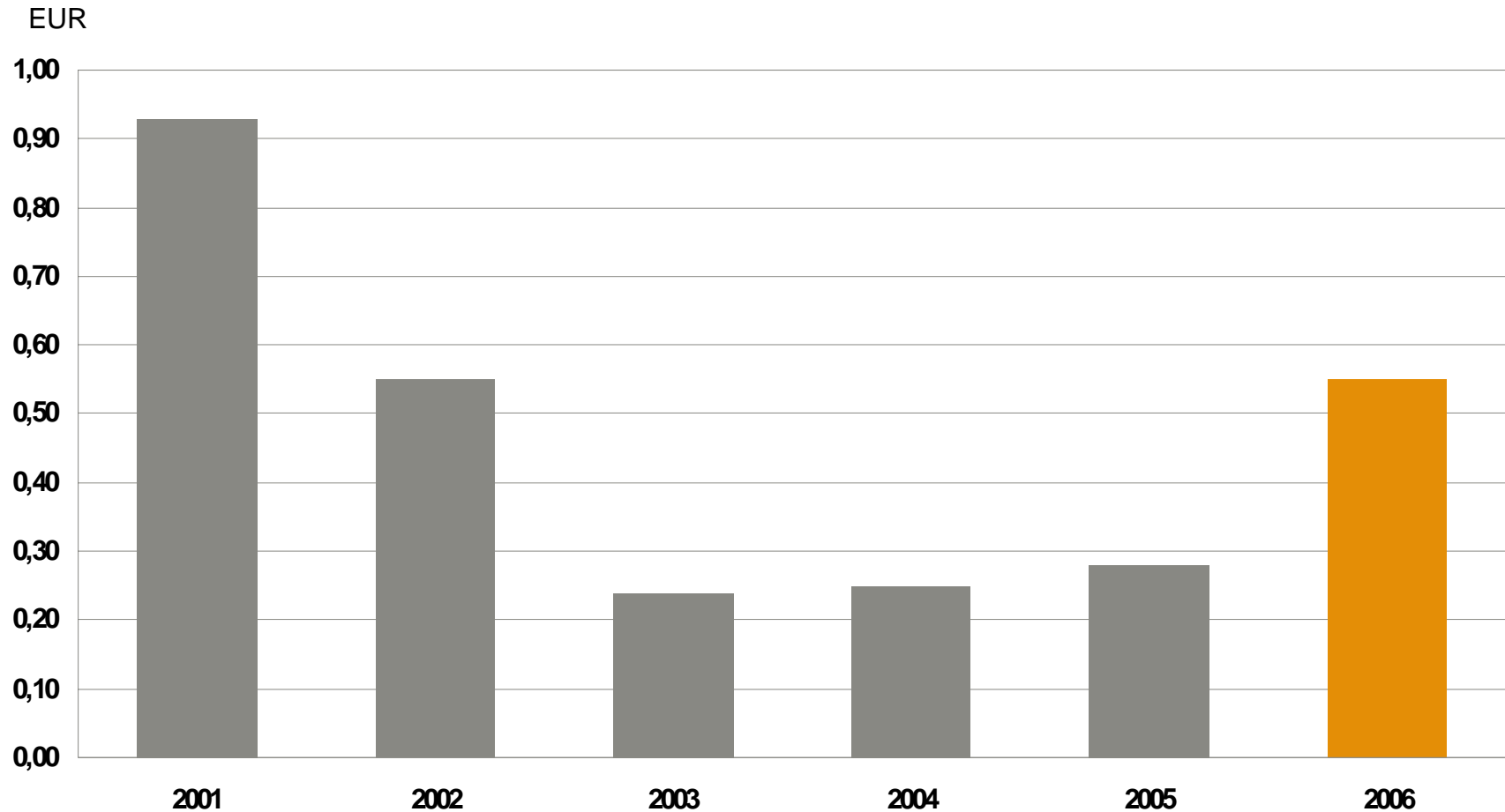
# Operating Profit



Comparatives excluding amortisation

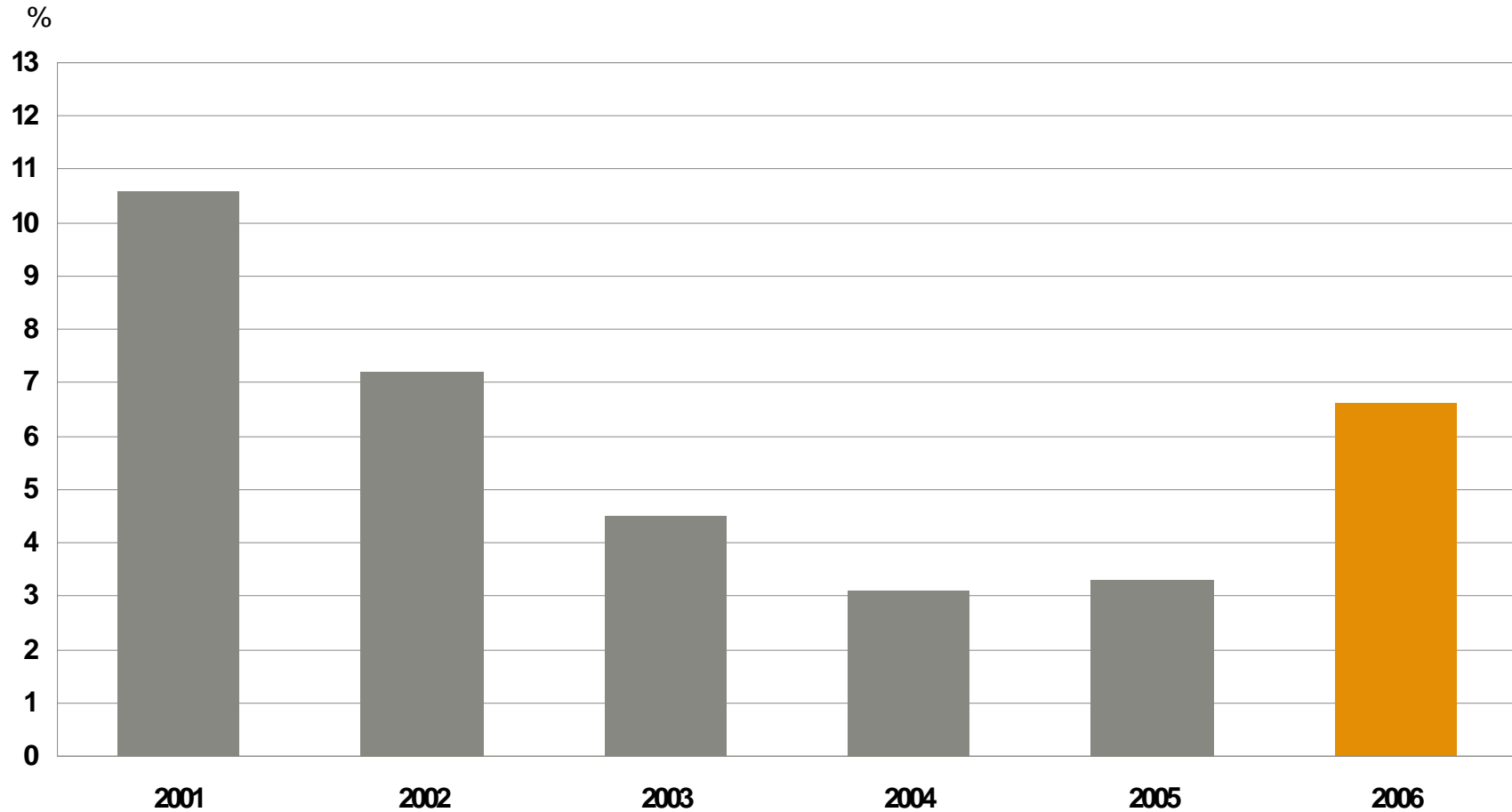
excluding non-recurring items

# Earnings per Share (EPS)



excluding non-recurring items

# ROCE



**Target  $\geq$  13% over the cycle (current WACC 8.7%)**

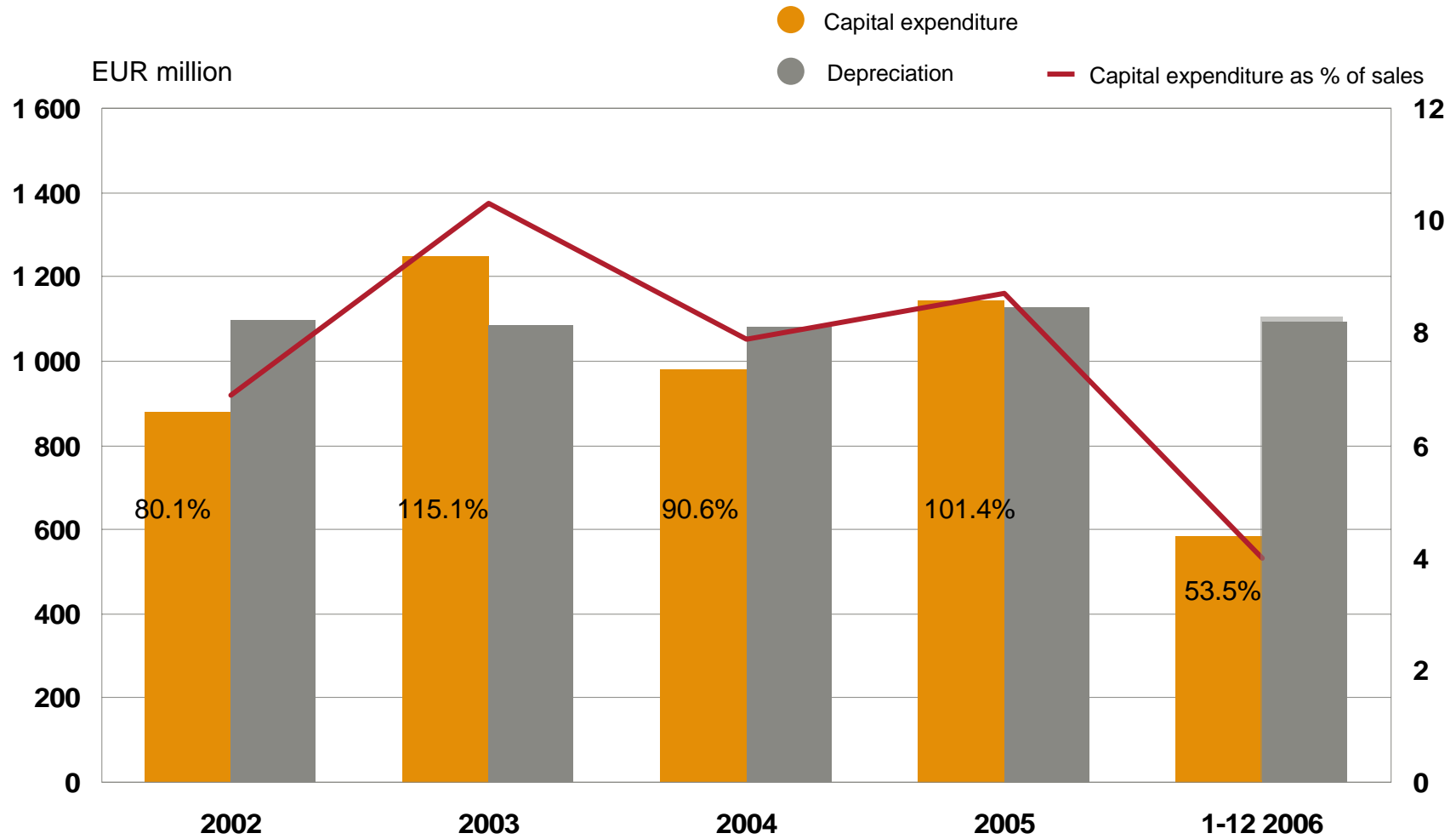
excluding non-recurring items

# Balance Sheet

| EUR million                                  | 2005            | 2006            |
|--|-----------------|-----------------|
| Fixed assets and other long-term investments | 12 776.4        | 12 344.9        |
| Inventories                                  | 2 150.5         | 2 019.5         |
| Receivables, investments, cash and bank      | 2 927.0         | 3 075.9         |
| Shareholders equity                          | 7 220.1         | 7 799.6         |
| Minority interest                            | 93.6            | 103.5           |
| Tax liabilities                              | 1 245.3         | 1 051.7         |
| Interest-bearing liabilities                 | 6 083.9         | 5 247.5         |
| Operating liabilities                        | 3 211.0         | 3 238.0         |
| <b>Balance sheet total</b>                   | <b>17 853.9</b> | <b>17 440.3</b> |
| <b>Interest-bearing net liabilities</b>      | <b>5 084.1</b>  | <b>4 233.9</b>  |
| <b>Debt/Equity ratio</b>                     | <b>0.70</b>     | <b>0.54</b>     |

# Capital Expenditure and Depreciation

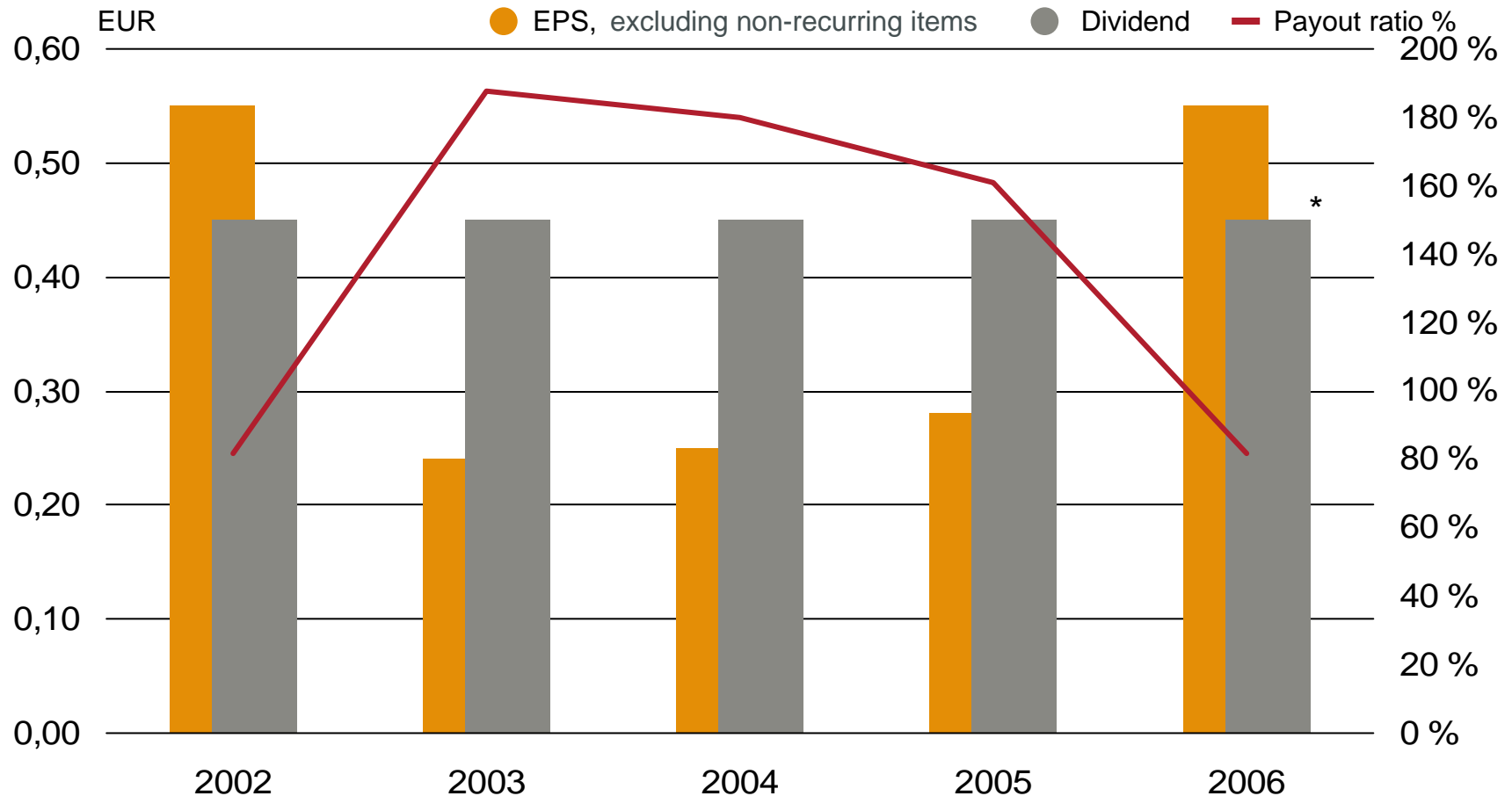
## 2002 – 2006



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**Dividend**

# Earnings Per Share and Dividend



\*) Board proposal

# Dividend Proposal

- Dividend proposal: EUR 0.45 per share
- Payout ratio: 82% excl. non-recurring items
- Total dividend payment: about EUR 355 million (assuming 788.6 million shares outstanding)
- Dividend yield: 3.5% (at a share price of EUR 12.76\*)
- Record date: 3 April 2007
- Dividend payment date: 17 April 2007

\* STERV closing rate, 20 March 2007

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**Remuneration**

# Remuneration for the Members of the Board of Directors

| <b>Proposal for the year 2007</b> |             |
|-----------------------------------|-------------|
| Chairman                          | EUR 135 000 |
| Deputy Chairman                   | EUR 85 000  |
| Members                           | EUR 60 000  |

# Remuneration for the Members of the Board Committees

| <b>Proposal for the year 2007</b>    |            |
|--------------------------------------|------------|
| <b>Financial and Audit Committee</b> |            |
| Chairman                             | EUR 20 000 |
| Members                              | EUR 14 000 |
| <b>Compensation Committee</b>        |            |
| Chairman                             | EUR 10 000 |
| Members                              | EUR 6 000  |

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**Proposed Board Members**

# Proposed Members of the Board of Directors



- Gunnar Brock
- Lee A. Chaden
- Claes Dahlbäck
- Dominique Hériard Dubreuil
- Birgitta Kantola
- Ilkka Niemi
- Jan Sjöqvist
- Matti Vuoria
- Marcus Wallenberg

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**Auditor**

# Proposed Auditor



PricewaterhouseCoopers Oy  
Authorised Public Accountants

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**Nomination Committee**

# Appointment of Nomination Committee

## Duties

- The Nomination Committee proposes that the AGM appoint 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) the 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.

## Members:

- The Chairman of the Board of Directors
- The Vice Chairman of the Board of Directors
- Two members appointed by the two largest shareholders (one each) according to the register of shareholders on 1 October 2007

## Remuneration for 2007

- EUR 3 000/year (payable only to non-board members)

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**Shareholders' Proposal**

# A Proposal by the Shareholders Matti Liimatainen, Annina Käppi and Matti Ikonen

## Shareholders Liimatainen, Käppi and Ikonen propose that:

- Stora Enso Oyj no longer procure from the Finnish state enterprise Metsähallitus any wood from forest areas in the Sami people's native locality in Inari designated as especially valuable for reindeer herding as reindeer grazing forest areas, and from the virgin forests areas in Sodankylä, Kittilä, Salla and Savukoski highlighted in the report on unprotected wilderness forests in forest Lapland by environmental organisations.

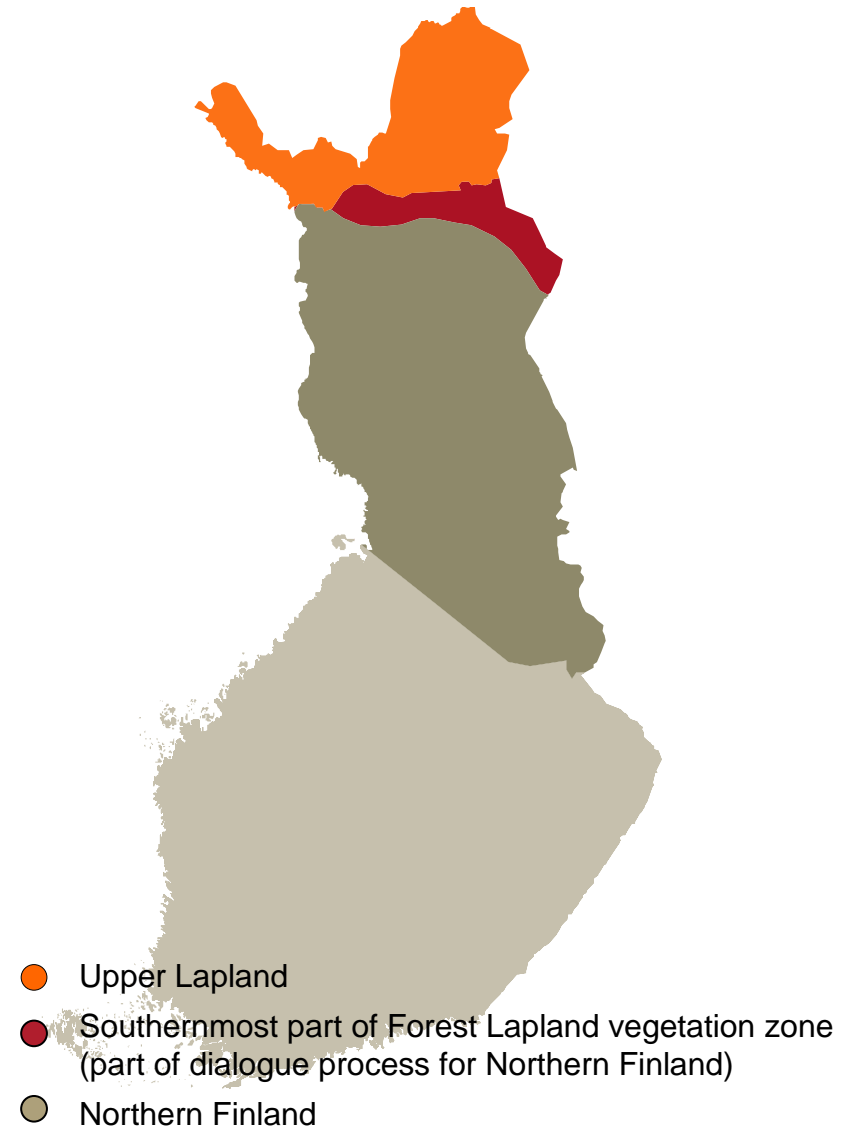
# Paper, packaging & forest products

## **Finnish Lapland**

Elisabet Salander Björklund  
SEVP, Forest Products

# Upper and Forest Lapland

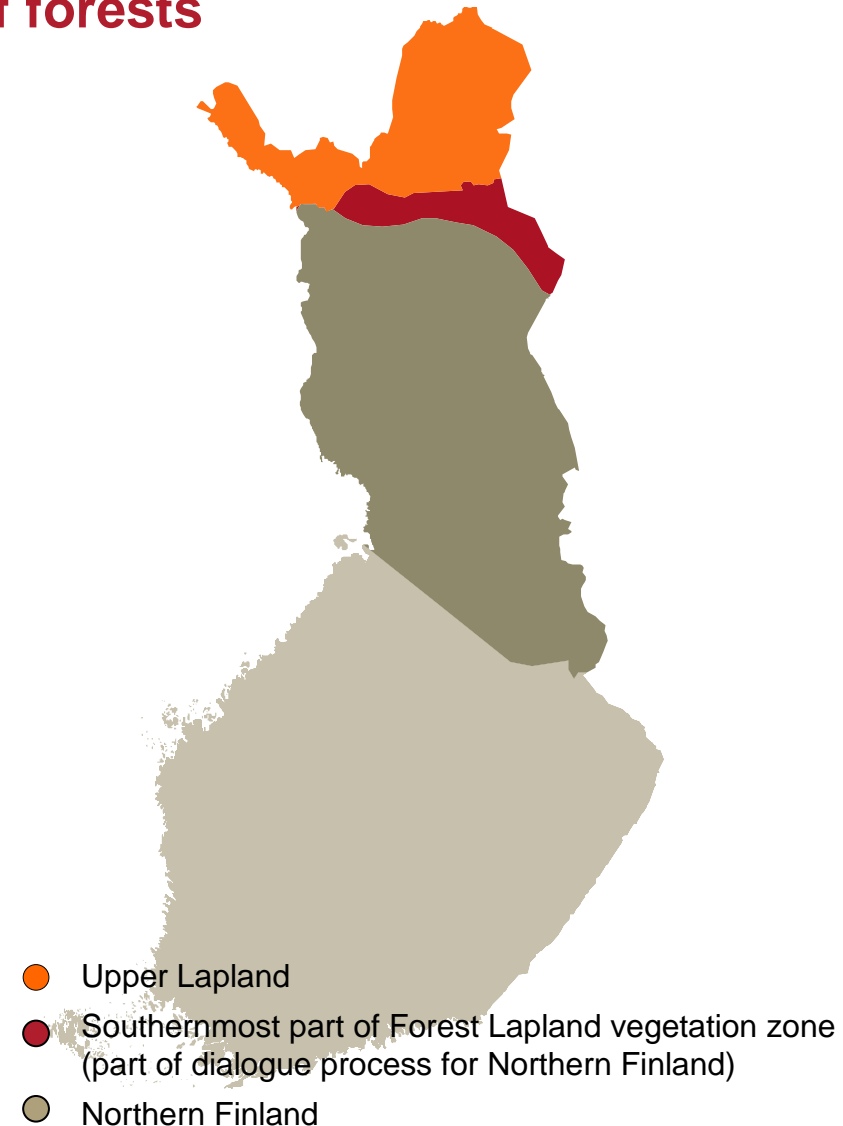
- Upper Lapland:
  - Wood is not accepted from the disputed areas unless an agreement has been reached between Metsähallitus & local reindeer herders cooperatives



# Forest Lapland

## Respect for biodiversity & multiple use of forests

- Forest Lapland is one of Finland's four vegetation zones located partly in Upper Lapland and Northern Finland.
- 43% or close to 500 000 ha of all forests in Forest Lapland are strictly protected.
- The forest industry is a significant employer and generator of economic welfare in the region.



# Forest Lapland

## Developments last year

- In Feb 2006, Metsähallitus and WWF jointly agreed to protect 100 000 ha in Northern Finland
  - 27 000 ha is in Forest Lapland
- In May 2006, Greenpeace and the Finnish Association for Nature Conservation requested an additional 101 000 ha be protected in Forest Lapland
- In Dec 2006, Metsähallitus published a report assessing conservation status in Forest Lapland
  - Sufficient from an ecological perspective



# Forest Lapland

## Recent developments

- In January 2007, the Ministry of Environment stated that ecological values have been safeguarded through the network of conservation and wilderness areas which exceed international requirements
- In February 2007, a group of Finnish researchers petitioned the Ministry of Agriculture and Forestry for Metsähallitus to stop logging in Forest Lapland
  - The State should reconsider ecological and socio-economic values
  - The State should consider international treaties
- The Finnish Forest Research Institute (METLA) will conduct a study addressing the petition and publish a statement at the end of April 2007

# Forest Lapland

## The situation today

- Metsähallitus has stopped logging in the disputed areas for this season, and no wood comes from the disputed areas to Stora Enso
- Stora Enso has asked Metsähallitus to conduct a thorough analysis of ecological conditions in the disputed areas, before they continue logging later in the year.
- Stora Enso firmly believes that stakeholder dialogue between all the parties involved is the key to solve conflicting interests and to find a fair balance between environmental, social and economic interests in forest use.
- Stora Enso has FSC controlled wood certification in all of Europe and Russia to ensure that wood only comes from acceptable sources. This also covers all wood from Upper and Forest Lapland.

# Paper, packaging & forest products

**Jouko Karvinen, CEO**

- Profit 2007 and APR programmes are completed on or ahead of Schedule
- Target of ROCE 13% remains
- Priority number one will be sustainable earnings and ROCE improvements – not size, market share or growth
- Key words are choices and focus – resource allocation to businesses that can earn double digit returns on capital employed
- No profit 2008 programme – an improvement path for future, not a new programme
- Overall global economic situation is relatively healthy – making the gap to targeted earnings over the cycle larger

# Near-term Market Outlook

## Europe



|                         | Demand Development   | Price Development   |
|-------------------------|--|---|
| <b>Magazine Papers</b>  |  |   |
| Uncoated                | Growth expected to ease after strong 2006                                      | Declined at the beginning of 2007 and may remain under pressure for non-contractual business      |
| Coated                  | Demand improved in early 2007; expected to be moderately positive for the year | Declined at the beginning of 2007 and may remain under pressure for non-contractual business      |
| <b>Newsprint</b>        | Modest demand growth expected  | Contract negotiations have been completed; prices increased by an average of 5% in Western Europe |
| <b>Fine Papers</b>      |  |   |
| Uncoated                | Demand outlook remains good, particularly in Eastern Europe                    | Further price increases are expected  |
| Coated                  | Healthy demand and strong order inflow expected                                | Price increases are currently being negotiated  |
| <b>Packaging boards</b> | Healthy demand and order inflow expected across grades                         | Some price increases are being implemented  |
| <b>Wood Products</b>    | Healthy demand expected in most markets  | Further product price movements likely to reflect wood costs                                      |

# Near-term Market Outlook

## North America



|                        | Demand Development  | Price Development   |
|------------------------|---|---|
| <b>Magazine Papers</b> |   |   |
| Uncoated               | Weak demand due to seasonal reasons                                 | Continued decline in prices expected                                      |
| Coated                 | Weak demand due to seasonal reasons and underlying end use weakness | Further downward price shifts expected                                    |
| <b>Newsprint</b>       | Demand expected to decline further                                  | Prices continue to decline.   |
| <b>Fine Papers</b>     |   |   |
| Coated                 | Demand expected to remain flat                                      | Reel prices under pressure; increases for sheet products being negotiated |

- Energy and wood supply cost increase have reduced the Profit 2007 improvements to zero
- Serious concerns on fibre supply, particularly in Finland and the Baltic area
- Expectations for change high – in and outside the company
- We will not communicate multi-year plans externally – it must be our actions and results from the actions that build our credibility
- Thank you for your continuing support
- Jukka – thank you for your contribution. We will take good care of Stora Enso