

# Paper, packaging & forest products

**Stora Enso**  
**The Path to Higher Returns**

**Keith Russell, SVP Investor Relations**

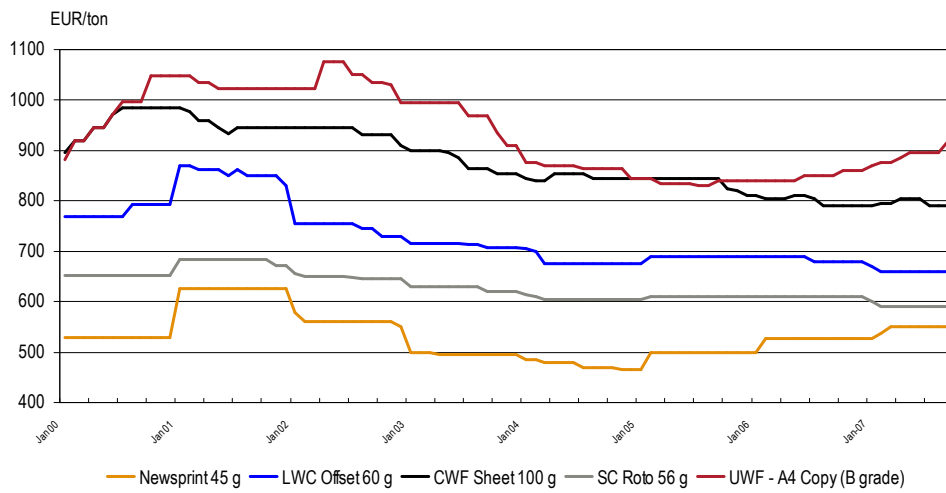
London  
14 November 2007

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.

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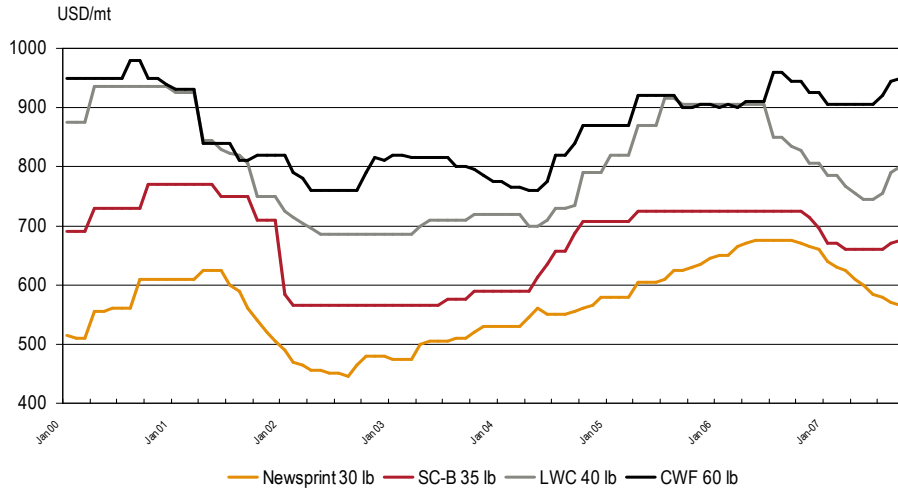
The Reality

## Paper price development in Germany 2000 - 2007



Source: Pulp & Paper Week

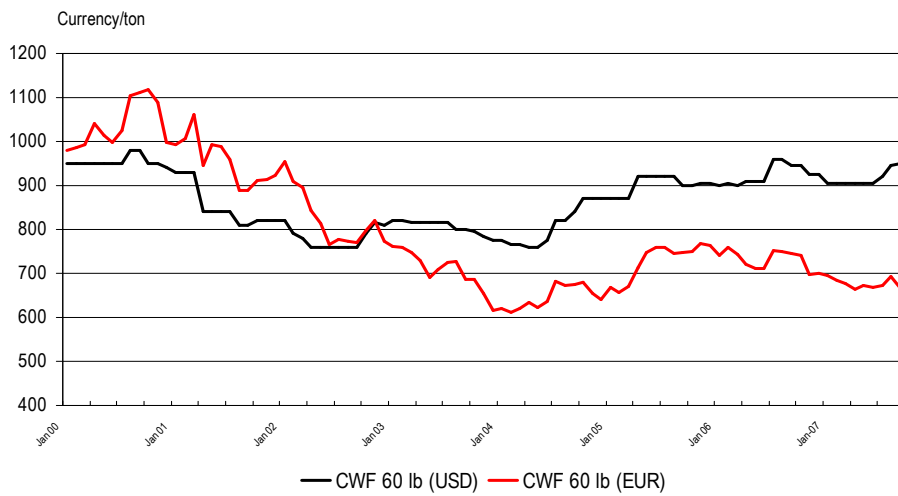
## Paper price development in USA 2000 – 2007



Source: Pulp & Paper Week

5 5 November 2007

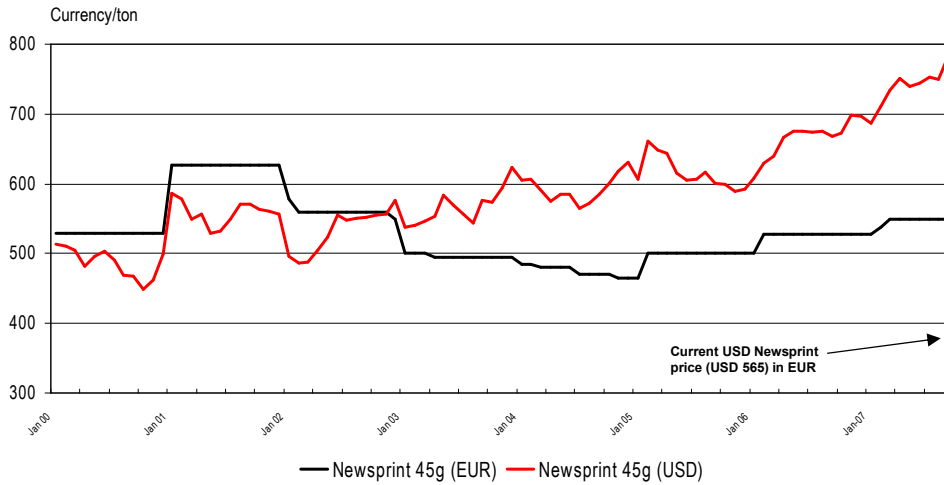
## Paper price development in USA (USD vs EUR) 2000 – 2007



Source: Pulp & Paper Week

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**Paper price development in Germany (EUR vs USD)**  
**2000 – 2007**

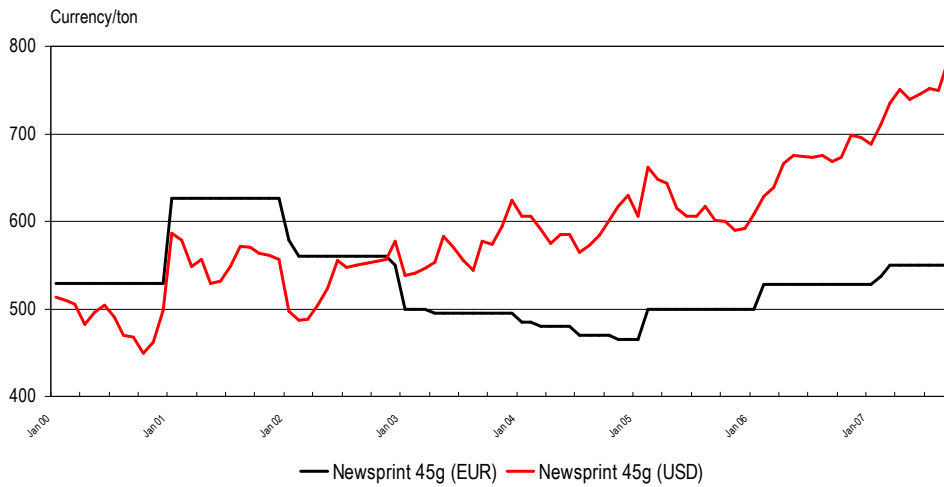


Source: Pulp & Paper Week

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**Paper price development in Germany (EUR vs USD)**  
**2000 – 2007**



Source: Pulp & Paper Week

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## Currency effect on annual operating profit



EUR million	+/- 10% effect on operating profit
USD	135
SEK	120
GBP	60

- Current hedging rates: about 30% of annual exposure
- Target is to reach hedging level of about 50% over 12 month period
- Indirect impact of currency movements on operating result is more difficult to quantify:
  - Impact on product prices and trade flows

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## Cost inflation



- Guidance for cost inflation 2007 vs 2006 of about 3.5% is maintained (gross unit costs)
- Wood costs the main driver
  - Far greater impact in 2H vs 1H 2007, as expected
- Other key input costs are relatively stable

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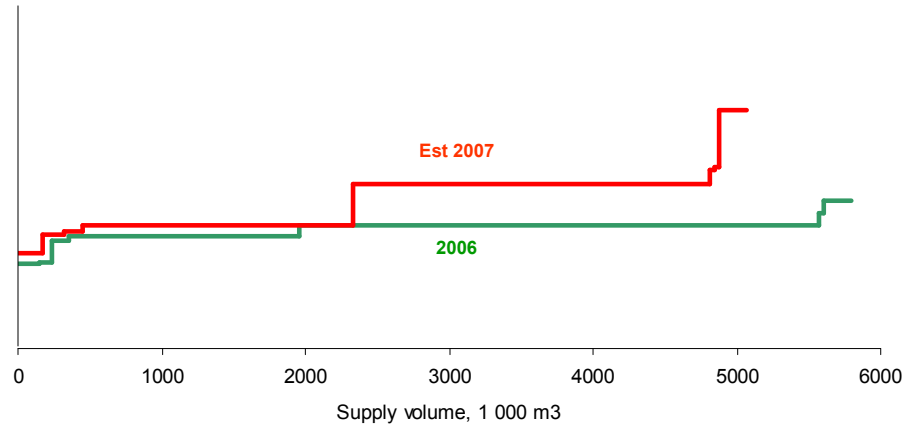
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## Finnish short fibre pulp wood

Average costs up 24%; import volumes up 35 – 65%



Cost at mill gate EUR / m3



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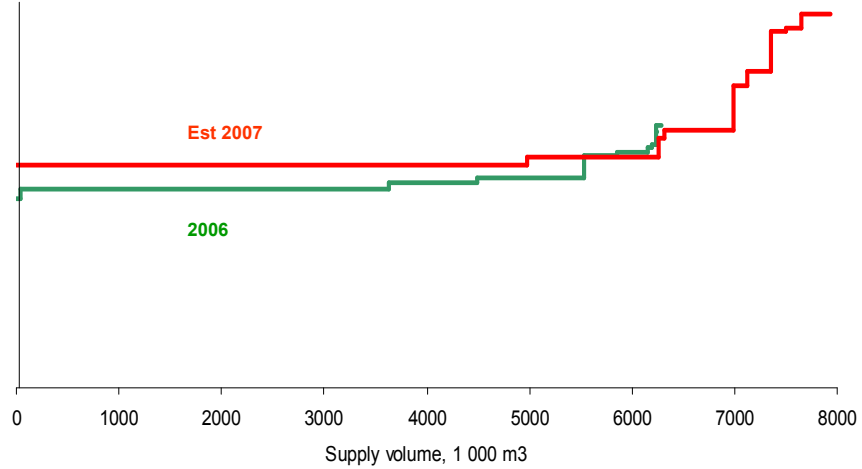
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## Finnish long fibre pulp wood

Average costs up 17%; last 10% of volume up 20% - 60%



Cost at mill gate EUR / m3



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## Russian export duties



- Announced roundwood export duty increases:
  - 1 July 2007: from EUR 4 to EUR 10
  - 1 April 2008: 20%, or EUR 15 min.
  - 1 January 2009: 80%, or EUR 50 min.
- Duties pertain to roundwood grades, with the exception of birch timber with diameter less than 15cm
- Aspen duties have been introduced at EUR 5 per cubic metre
- *If the issue of the impending higher duties cannot be resolved soon and the dramatically increasing wood cost trends reversed, we will have to take further steps to rationalise pulp, paper, board and sawnwood production in Finland*

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## Wood costs for pulp production- Q3 2007

Euro / m<sup>3</sup>sub



	Nordic	Baltic	Germany	European Russia	Southern China	Brazil
Long fibre for chemical pulp	41 – 55	55 – 65	43 – 46	32 – 48	47 – 53	25 – 31
Short fibre for chemical pulp	60 – 68	60 – 70	43 – 46	25 – 52	25 – 45	17 – 25

Sources: Jaakko Pöyry, Paperloop, Stora Enso

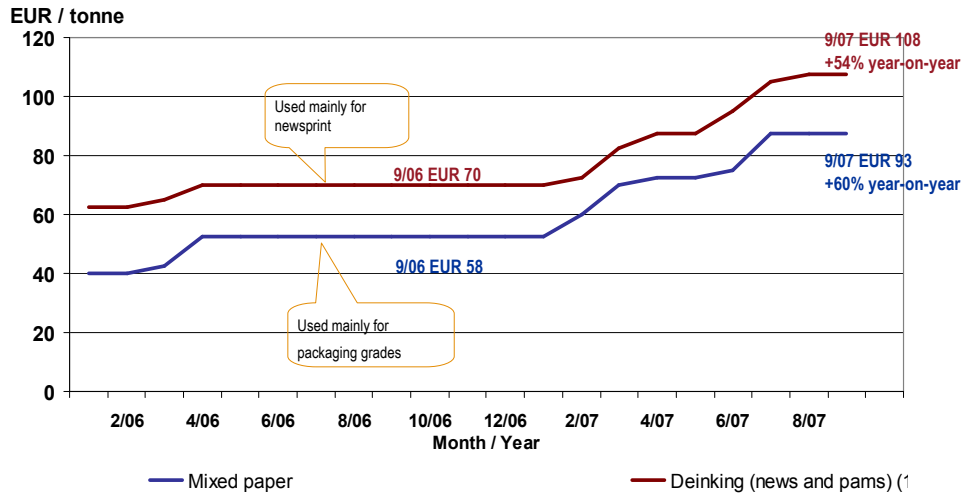
### Notes

- These are indicative costs of wood delivered to mill or railway / port terminal
- European figures based on market prices (domestic and imported wood included), China and Brazil figures represent a range of market and cost-based prices of plantation-grown wood in certain regions
- 1 Euro = 1.42 USD

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## Recovered paper prices in Germany 2006 – 2007

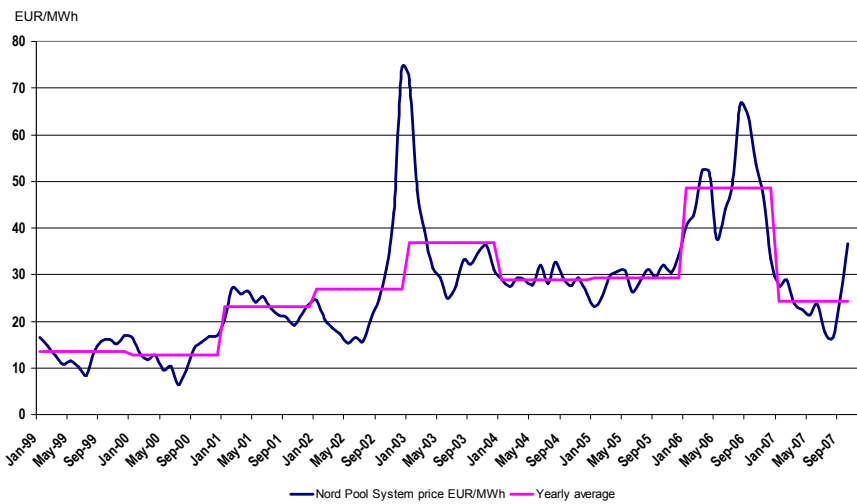


Source: Euwid

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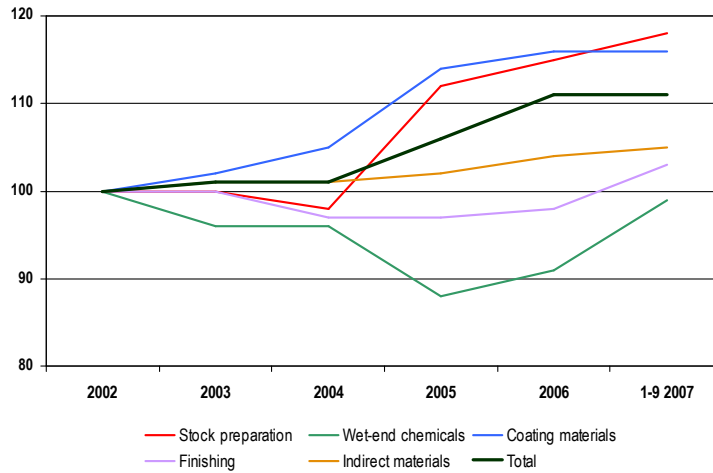
## Nord Pool electricity price development Jan 1999 – Oct 2007



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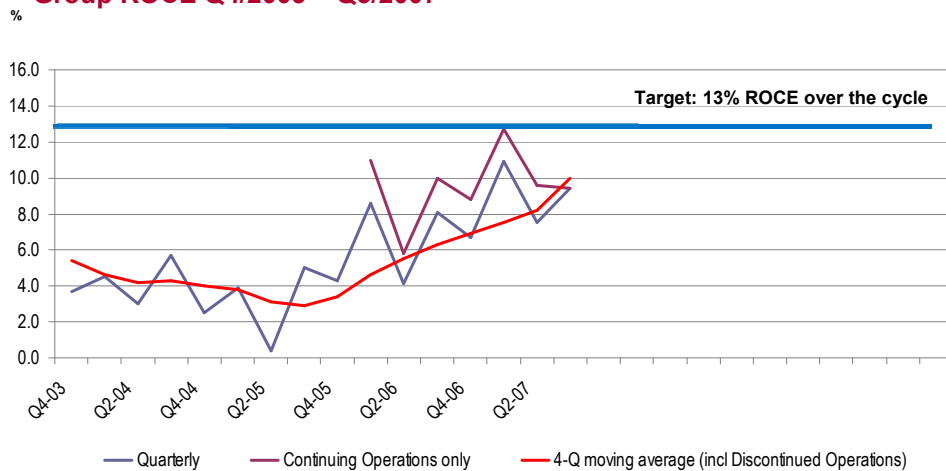
## Relative procurement price trends 2002 – 1-9 2007 (indexed)



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## Improvement path Group ROCE Q4/2003 – Q3/2007



Based on EBIT excluding NRI (and goodwill amortisation in 2003-2004)

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## Our Response

### Our response:

*We cannot achieve our 13% ROCE target without structural change*

#### **Actions**

- Divest underperforming businesses
- Close uncompetitive assets
- Cut marginal wood costs
- Sell production assets
- Asset swaps
- Mergers
- Spin-offs
- Joint Ventures

#### **Examples**

- Sale of North American Operations*
- Summa Mill; Anjala PM1*
- Closure of Kemijärvi, Norrsundet pulp mills*
- Kotka Mill*

## Planned closures and divestments



### Planned Closures

Mill	Products	Annual capacity, tonnes	Time of planned closure
Summa Mill	Newsprint, uncoated magazine and book paper	415 000	During Q1 2008
Anjala Mill PM1	Book paper	120 000	After conversion of Anjala PM2 to book paper
Kemijärvi Mill	Long-fibre (softwood) pulp	250 000	During Q2 2008
Norrsundet Mill	Long-fibre (softwood) pulp	300 000	At the latest by the end of Q2 2009

In addition, immediately after Q1 2008, Anjala Mill PM2, which produces 155 000 tonnes of coated magazine paper will cease production of magazine paper and be converted to produce book paper.

### Planned Divestments

Mill	Products	Annual capacity	Time of planned divestment
Kotka Mill	Laminating papers, special coated magazine paper	348 000 tonnes	As soon as practicable
Kotka Sawmill	Sawn goods	250 000 m3	If satisfactory offer received

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## Planned reorganisation of administrative functions



Unit/Function	Location	Number of employees	Time of planned action
Corporate and country level staff	Finland, Sweden, the UK and Germany	90	
Shared Service Centres	Finland, Sweden and Germany	150	Planning the change starts early 2008, with intended implementation within a year
Research Centres	Sweden	60	

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## Estimated on-going financial impact Planned closures & personnel reductions



External sales reduction	EUR 370 million
Capital employed reduction	EUR 300 million
Total personnel reduction	1 700 people
Net annualised cost improvement*	EUR 140–160 million
Provisions and fixed asset write downs**	EUR 380 million, of which EUR 160 million has cash impact over the restructuring period from 2007 to Q2 2009

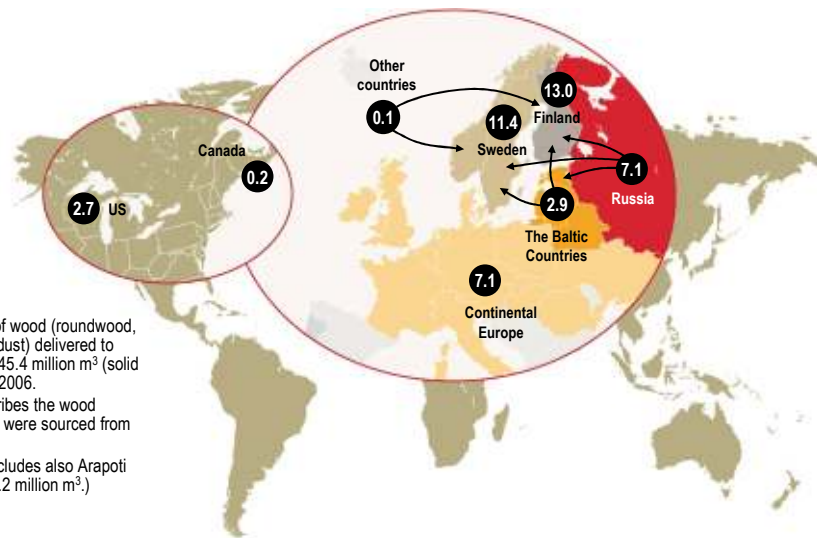
\*Will have full annual impact in 2009.

\*\* As non-recurring items, anticipated in financial results for Q4 2007.

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## Operations – Northern Hemisphere Wood sourcing in 2006, million m<sup>3</sup>sub



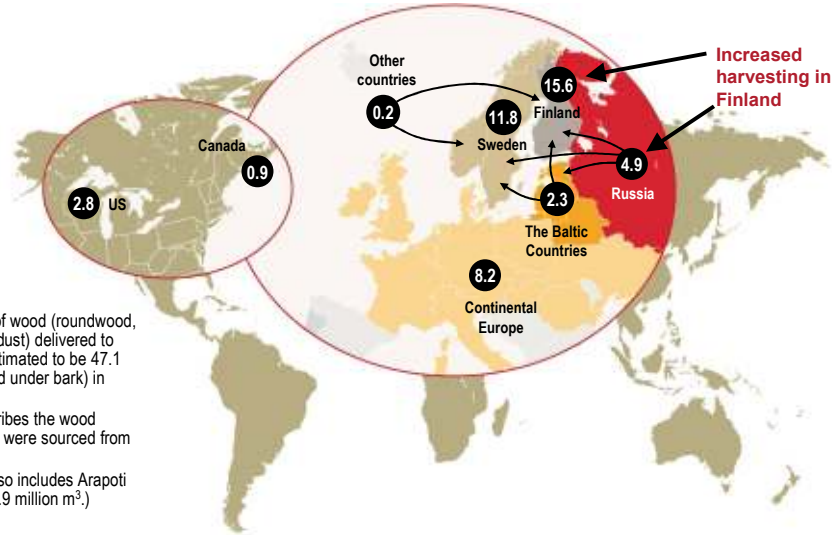
Total amount of wood (roundwood, chips and sawdust) delivered to own mills was 45.4 million m<sup>3</sup> (solid under bark) in 2006.  
The map describes the wood volumes which were sourced from each region.  
(Total figure includes also Arapoti mill in Brazil, 0.2 million m<sup>3</sup>.)

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## Operations – Northern Hemisphere

### Wood sourcing in 2007E, million m<sup>3</sup>sub



Total amount of wood (roundwood, chips and sawdust) delivered to own mills is estimated to be 47.1 million m<sup>3</sup> (solid under bark) in 2007.  
 The map describes the wood volumes which were sourced from each region.  
 (Total figure also includes Arapoti mill in Brazil, 0.9 million m<sup>3</sup>.)



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Investing for Growth

## Investing for growth



- The high return businesses will be grown more aggressively
- Example: Industrial Packaging
  - Acquisition in Poland
  - Organic growth investments in Russia, Hungary and Poland
- Selected projects in Emerging Markets
- Investing in product innovation

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## Present operations in Latin America



- Veracel Pulp Mill in Brazil (JV with Aracruz)
  - Annual production capacity of 900 000 tonnes
  - 77 000 ha of eucalyptus plantations
  - Exploring possibility of 'Veracel 2'
- Land purchase programmes in Brazil and Uruguay
  - Brazil – Rio Grande do Sul (46 000 ha)
  - Uruguay – Rio Negro (45 000 ha)
- Stora Enso Arapoti
  - Acquired from IP in September 2006
  - Coated Mechanical (LWC) mill with annual production capacity of 205 000 tonnes
  - Sawmill with annual capacity of 150 000m<sup>3</sup>
  - 50 000 ha of timberland (30 000 ha of productive plantations)
  - 100% of Sawmill, 80% of timberland and 20% of LWC machine sold to Arauco for USD 208 million (EUR 144 million) in October 2007



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## Expanding operations in Russia – pulp and paper mill project prefeasibility study



- Aim to produce paper for the Russian market from Russian wood
- Pre-feasibility study for a pulp and paper mill in Nizhny Novgorod now ongoing; full feasibility study may follow
- If the results of the feasibility studies are favourable, final investment is subject to Stora Enso BoD's decision
- Issues to consider include:
  - Infrastructure for logistics
  - Forest rights
  - Taxation



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## Expanding operations in Poland



- Acquisition of 28% of the shares in Stora Enso Poland
  - Stora Enso now holds 95% of the shares in the company
- Stora Enso is considering to further expand the corrugated packaging operations in Poland, to consolidate the Group's position as a leading supplier
- Possibility of building a new containerboard machine, for own use, based on own OCC collection



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## Summary



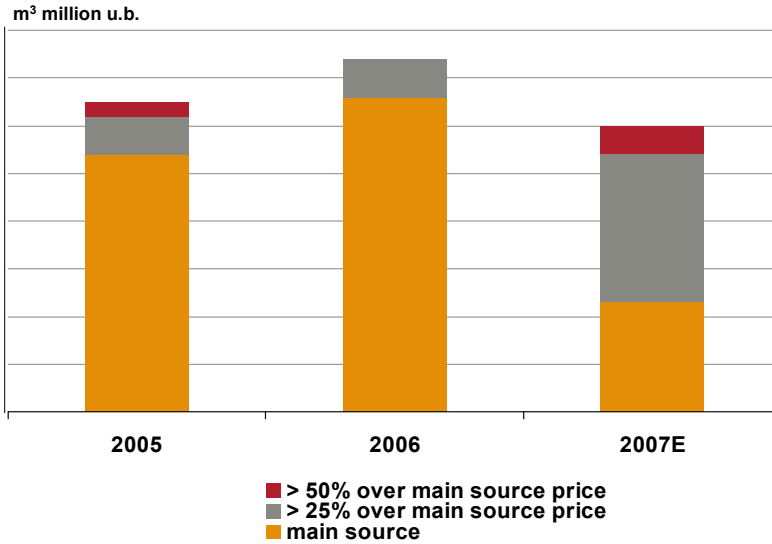
- Changing industry fundamentals and dramatically higher wood costs require robust actions
- Stora Enso is determined to achieve its financial targets – by all means
- The guiding objective is higher profits - through cost leadership and innovation, not size or market share
- Winning businesses will be grown aggressively



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**Appendix**

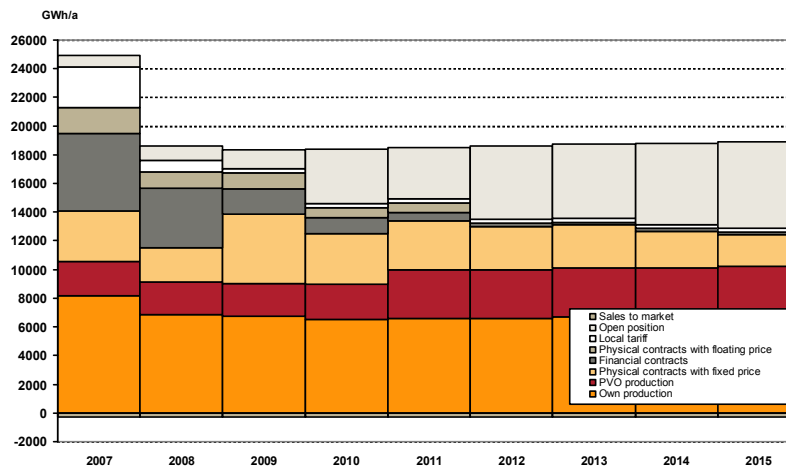
## Marginal short fibre pulp wood cost increase 2005 – 2007 Finland and Sweden



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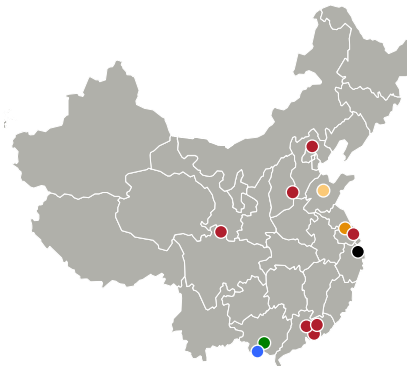
## Stora Enso energy procurement and hedging profile excl SENA from Q1 2008 & announced closures as planned



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## Present operations in China



- JV
- Plantations
- Mill site land acquisition
- Core board
- Fine paper mill
- Sales office

- Fine paper mill in Suzhou
  - Capacity 240 000 tonnes coated woodfree (including sheeting)
  - Primarily for domestic sales
  - Utilising imported pulp from Veracel
- Joint venture with Shandong Huatai Paper soon to start up (“SC” paper)
- Plantations + mill site land in Guangxi province
  - Approx. 90k ha, primarily eucalyptus
  - Mill site land acquired in Beihai City (250 ha)
- Core factory in Hangzhou
  - Capacity 30 000 tonnes
- Core factory to be established in Foshan

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## Present operations in Russia and Eastern Europe



### Corrugated packaging board

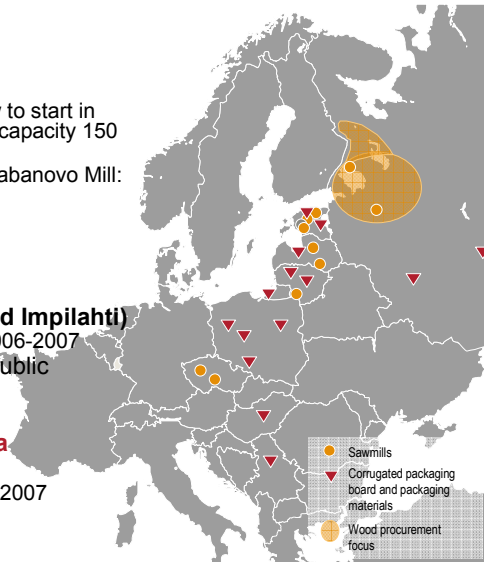
- Mills in Latvia, Poland and Russia
  - Construction of new plant near Moscow to start in Sep 2006, start-up in Q1 2008. Annual capacity 150 million m<sup>2</sup> of corrugated board
  - Micro-flute line to be constructed at Balabanovo Mill:
    - EUR 23 million invested in 2007
    - Production to start in Q2 2008

### Sawmilling

- 2 mills operating in Russia (**Nebolchi and Impilahti**)
  - EUR 44 million to be invested during 2006-2007
- 9 mills in Baltic States and in Czech Republic

### Procurement / wood supply from Russia

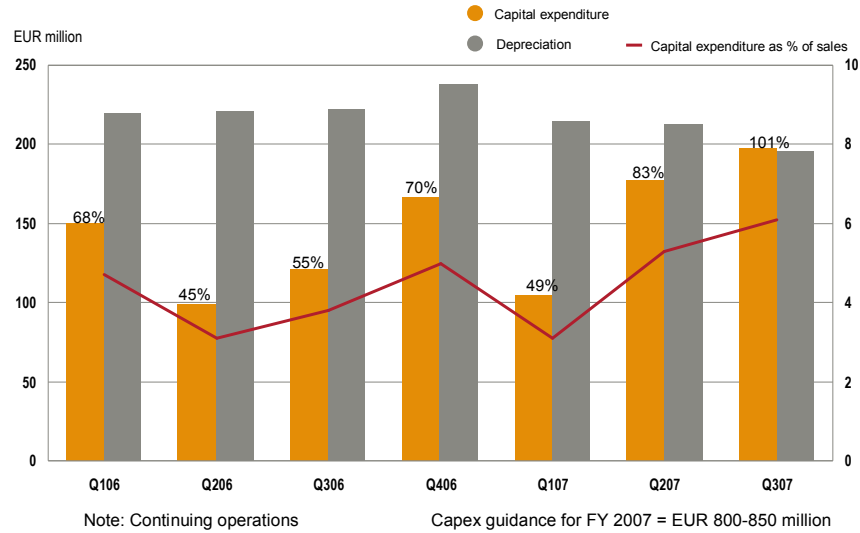
- Procurement volume in 2006: 7.1 Mm<sup>3</sup>/a
  - Volumes have reduced considerably in 2007



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## Capital expenditure and depreciation



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## Credit ratings

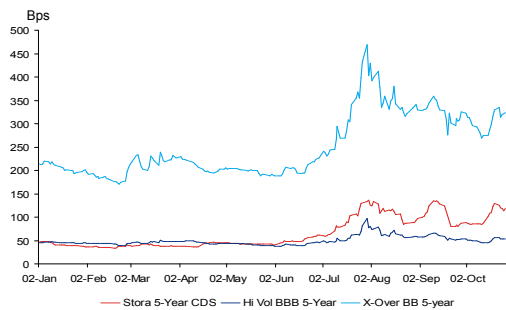


**Baa3 (Negative) / A3 (16 April, 2007)**



**BBB- (Negative) / P3 (22 October 2007)**

Stora Enso credit spread (5Yr CDS) vs. BBB and BB index

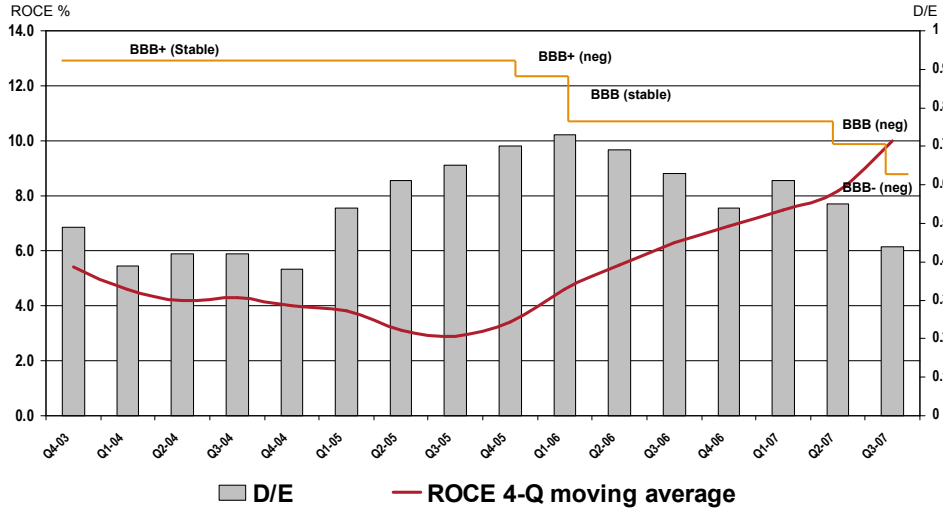


- Rating Agencies negative outlook for the industry mitigated by improved credit ratios and stronger balance sheet
- Recent rating actions and market volatility has not affected the access to, or pricing of, short term debt
- No current long term funding requirements and well structured maturity profile minimises refinancing risk

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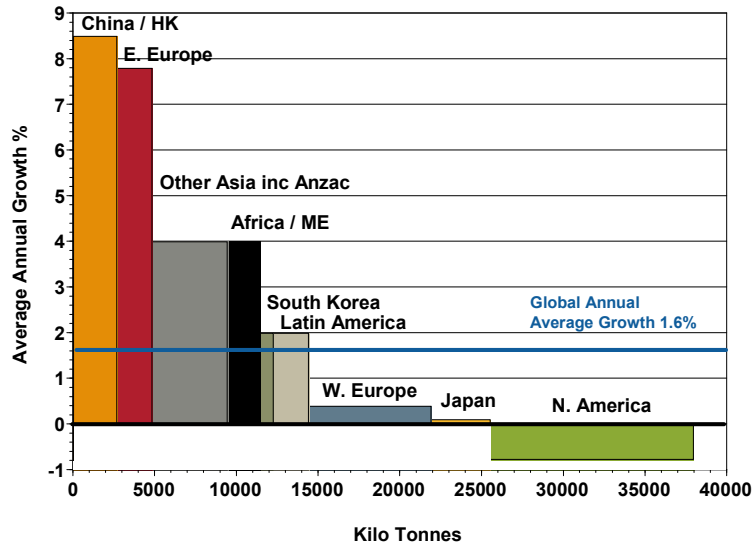
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## Financial performance and rating development (Standard & Poor's)



Based on EBIT excluding non-recurring items (and goodwill amortisation in 2002-2004)

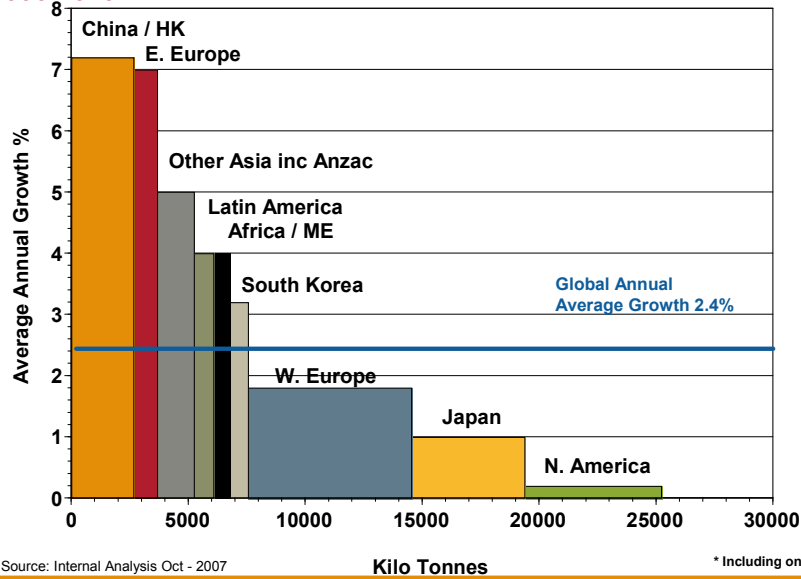
## UWF\* demand growth 2006-2010E



Source: Internal Analysis Oct - 2007

\* Including only bulk products

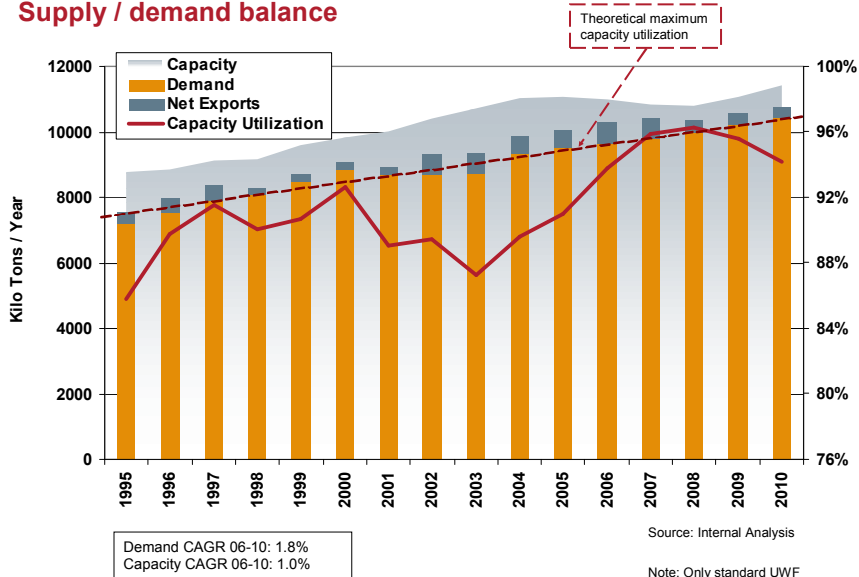
### CWF\* demand growth 2006-2010E



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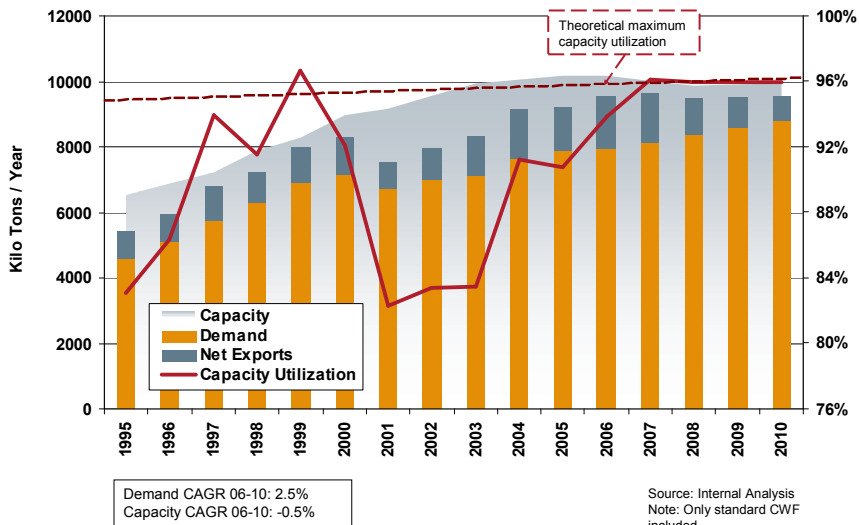
### European UWF Supply / demand balance



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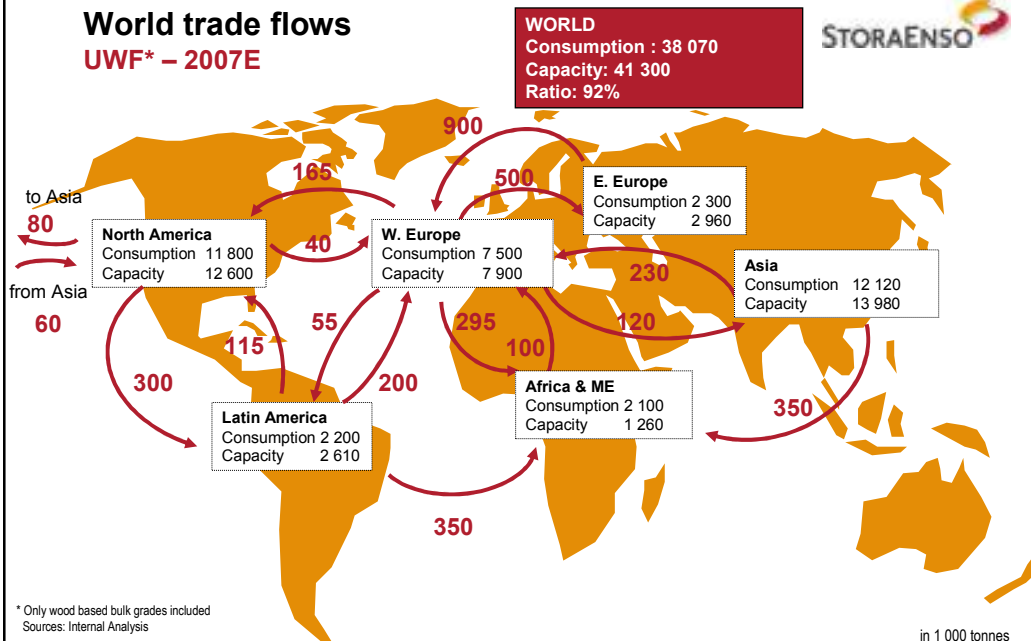
## European CWF Supply / Demand balance



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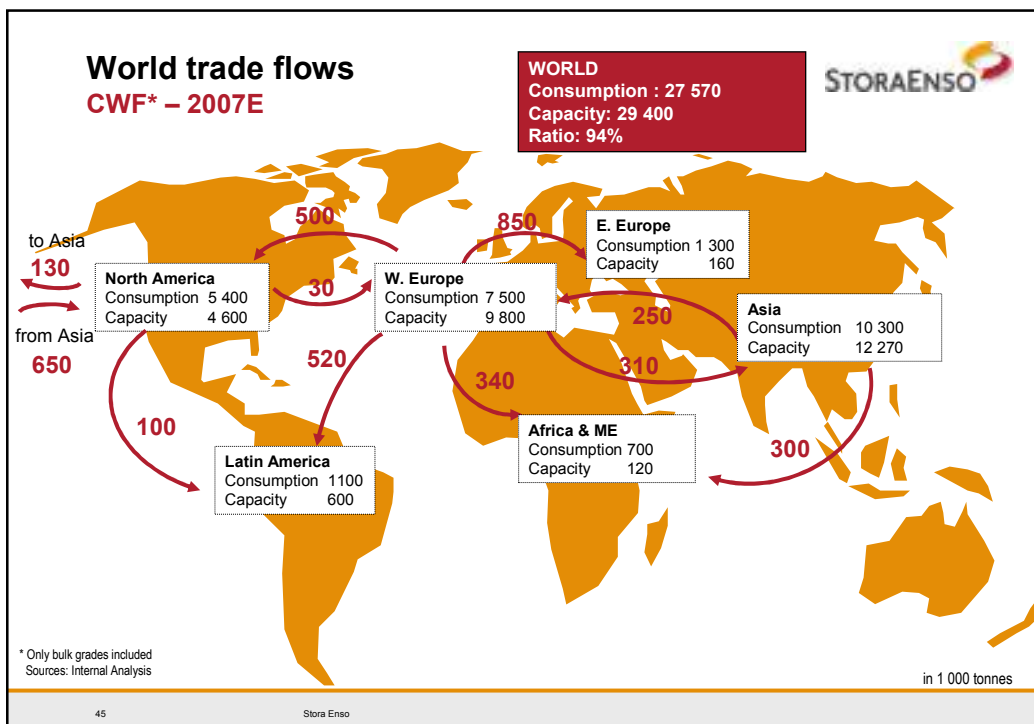
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## World trade flows UWF\* - 2007E



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### Near-term Market Outlook

Business Area	Demand development	Price development
Newsprint	Flat demand expected	Prices are expected to remain unchanged, according to annual agreements
Magazine Paper	Benefits from improved seasonal demand, which is expected to remain firm	Prices have stabilised and an increase for non-contractual coated magazine paper business is predicted. Uncoated magazine prices are expected to remain stable
Fine Paper	Demand outlook is moderating	Price increases are moderating
Consumer Board	Flat demand is forecast	Price rises are partly offset by weak USD
Industrial Packaging	Good demand is expected to continue	Prices are improving slightly
Wood Products	Market is oversupplied; outlook for deliveries is rapidly depressing	Price outlook is rapidly depressing

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