

# Paper, packaging & forest products

## **Financial Results January–March 2007**

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26 April 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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# Highlights

## Q1 2007

- Group earnings strongly improved
  - Strong performance in Fine Paper and Wood Products
  - Packaging Boards also performed well
  - Publication Paper results limited by market conditions
  - Tight wood supply managed well
- Year-on-Year
  - Revenues up 6.9%
  - Operating profit up (ex. NRI) 24.4 %
- Group ROCE Q1 (ex. NRI) 10.8 %

# Challenges

- Planned stoppages in some Finnish pulp mills in Q2, to manage wood supply
  - Combined with maintenance and holiday stoppages
- Weak trend in magazine paper prices worldwide
- Uncertain trend in demand for printing and writing papers in North America

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**Financial Results**

# Financial Results Q1 2007



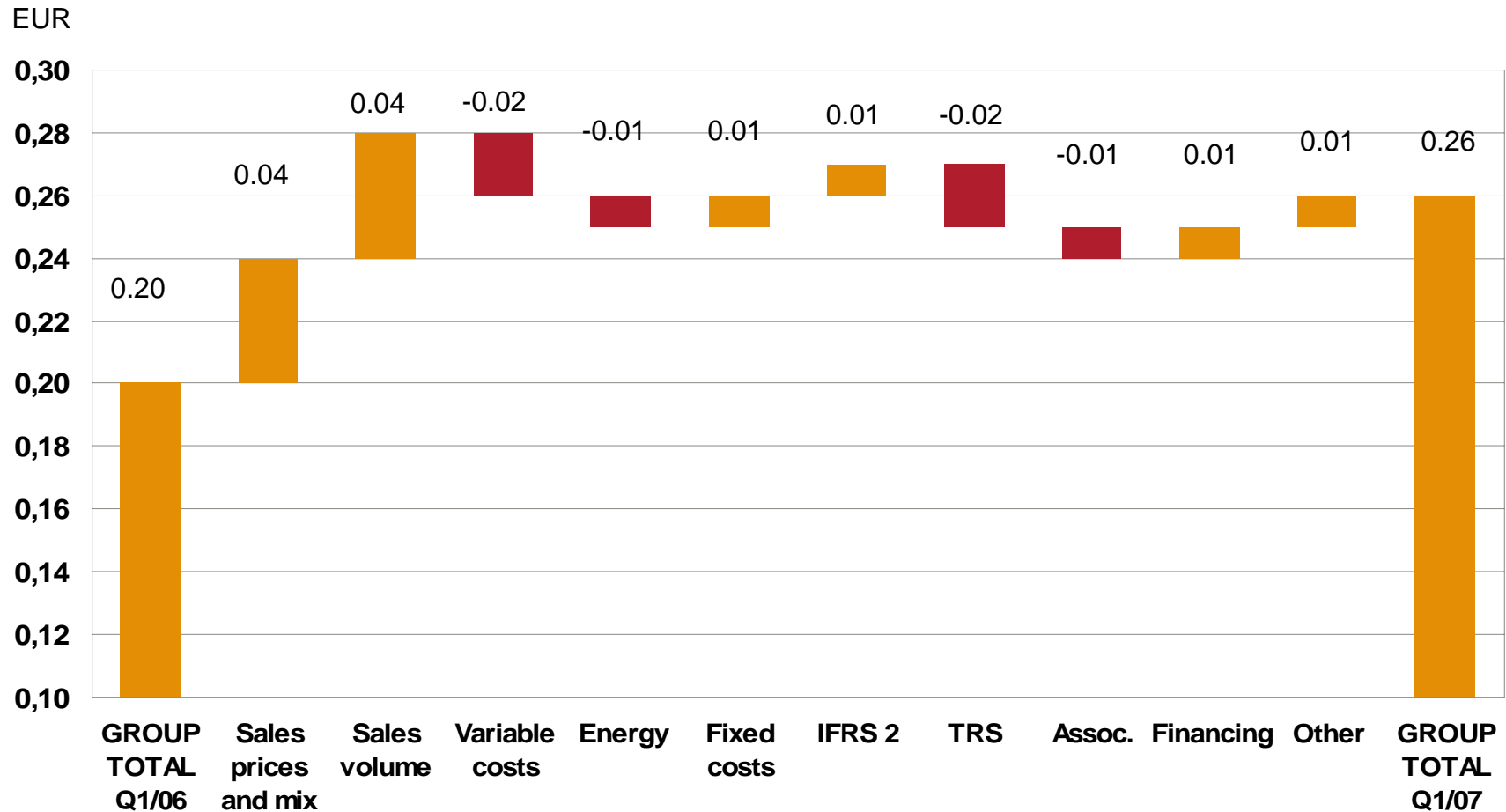
	IV/06	I/06	I/07	% Change Q107/Q106	% Change Q107/Q406
Sales (EUR million)	3 731.8	3 607.7	3 855.4	6.9	3.3
Operating profit* (EUR million)	187.6	247.0	307.3	24.4	63.8
Operating profit (EUR million)	247.6	223.8	339.3	51.6	37.0
EPS (EUR)	0.33	0.29	0.28	-3.4	-15.2
EPS* (EUR)	0.13	0.20	0.26	30.0	100.0
Cash EPS* (EUR)	0.49	0.54	0.59	9.3	20.4
ROCE*	6.7	8.5	10.8	27.1	61.2
Debt/Equity	0.54	0.72	0.60	-16.7	11.1

\*excluding non-recurring items

- Sales were higher than in the first quarter 2006
  - Higher average prices for fine paper and wood products
  - Increased deliveries for publication paper, packaging boards and wood products
- Profitability was higher in all segments except Publication Paper
  - Prices rose in wood products and uncoated fine paper.
  - Higher newsprint prices only partly offset lower magazine paper prices.

# Change in EPS

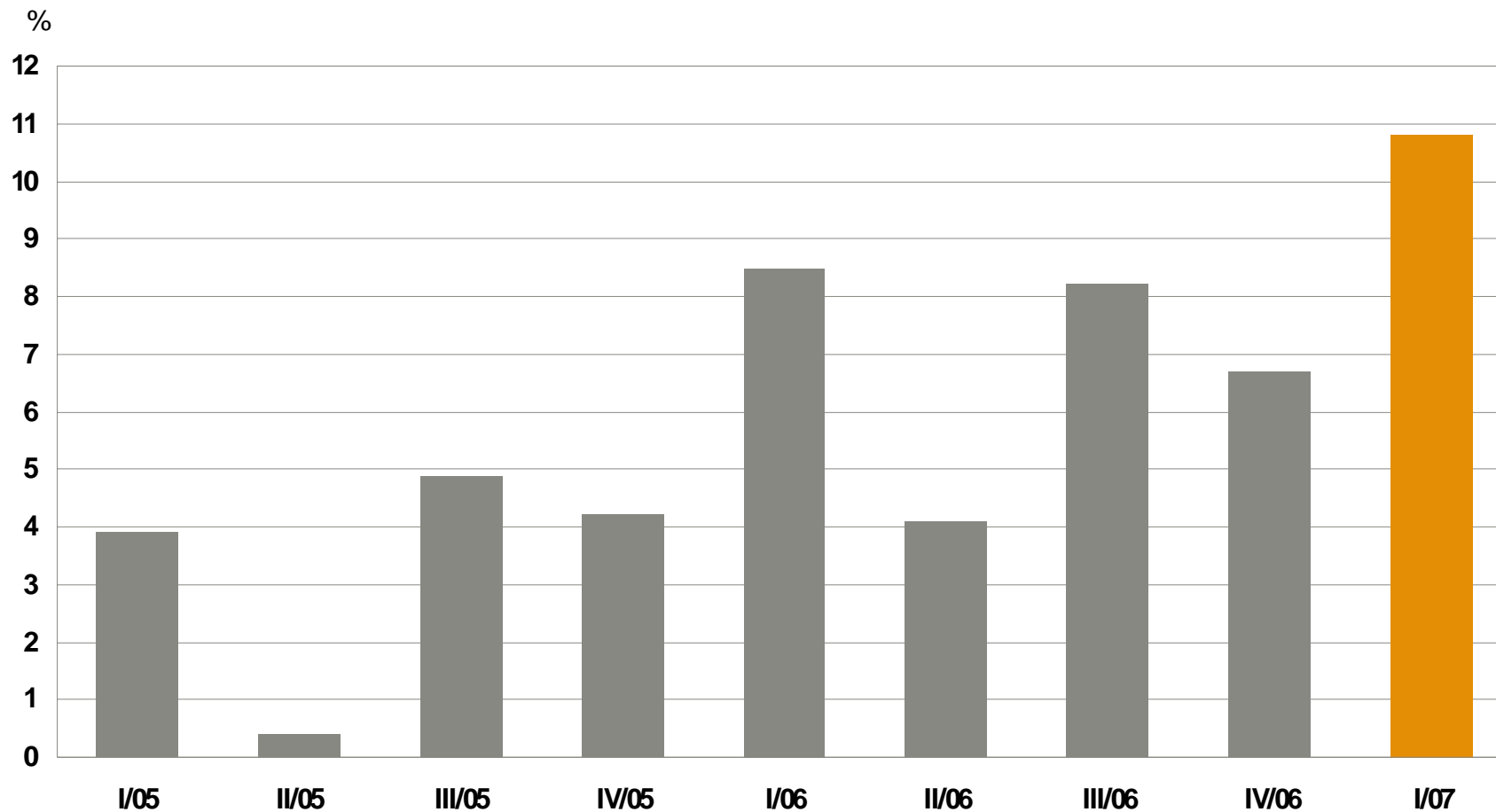
## Q1/06 – Q1/07



Excluding non-recurring items

# ROCE by Quarter

## 2005 – Q1/07

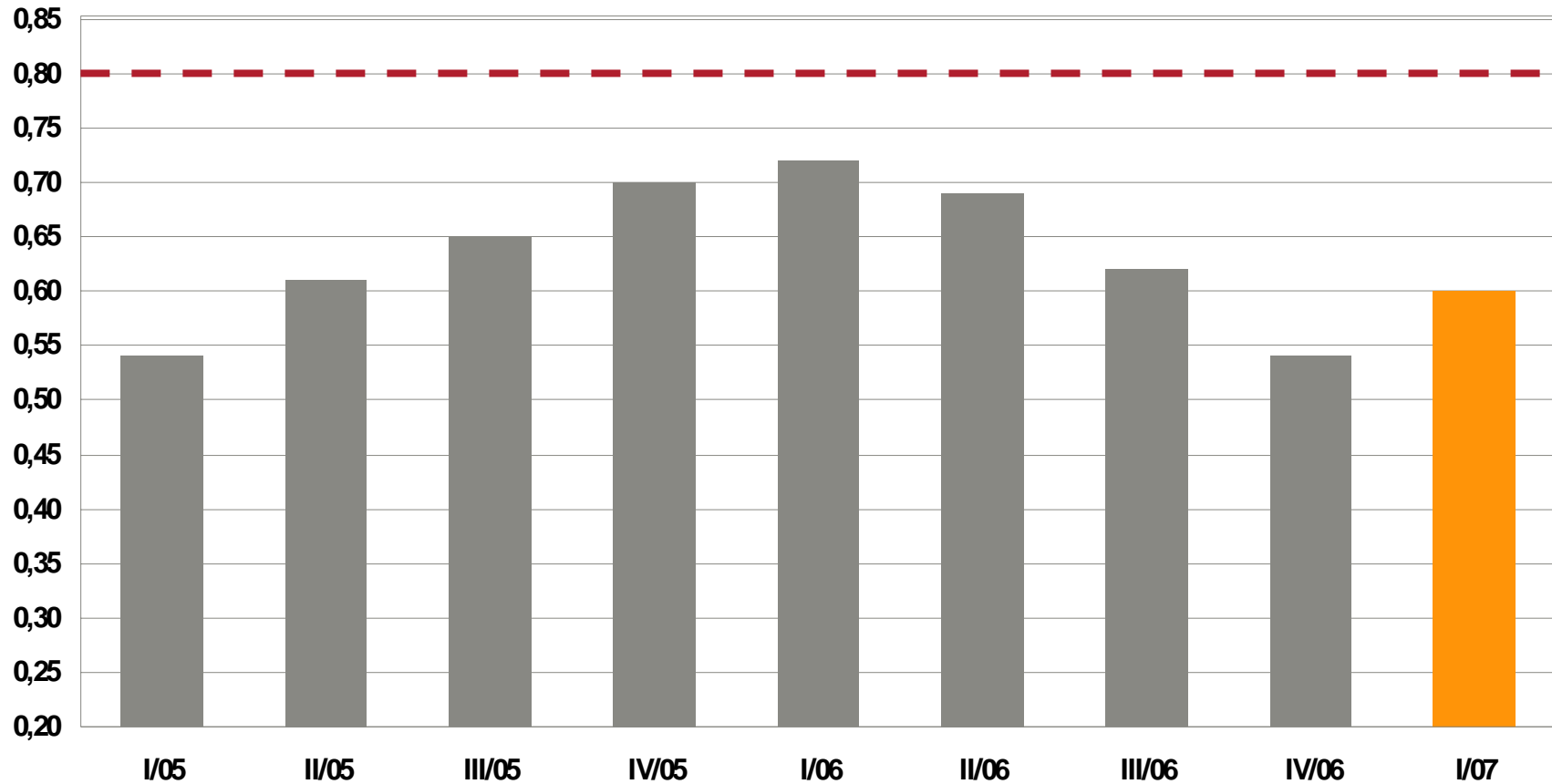


**Target  $\geq$  13% over the cycle (current WACC 8.7%)**

excluding non-recurring items

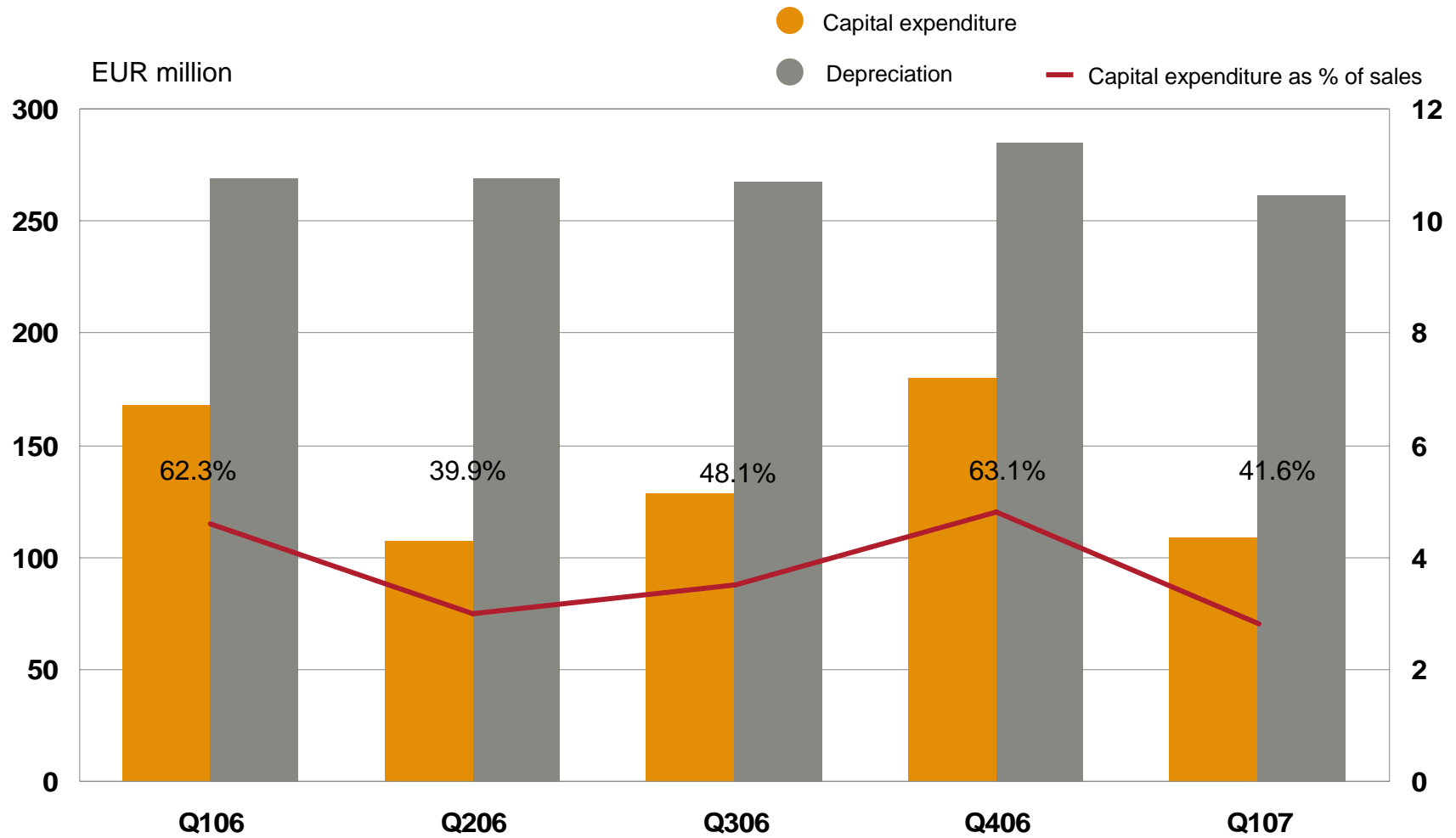
# Debt/Equity

## 2005 – Q1/07



Objective  $\leq 0.8$

# Capital Expenditure and Depreciation



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**Market Outlook**

# Near-term Market Outlook

<b>Europe</b>	<b>Demand Development</b>	<b>Price Development</b>
<b>Publication Paper</b>	Positive economic outlook expected to support demand.	Prices for newsprint are stable; some pressure remains for non-contractual magazine paper.
<b>Fine Paper</b>	Outlook remains healthy for both coated and uncoated.	Prices are forecast to rise for both coated and uncoated.
<b>Packaging Boards</b>	Demand expected to remain firm.	Prices rising in some business segments.
<b>Wood Products</b>	Good and stable demand.	Outlook for prices relatively steady at a good level.
<b>North America</b>		
<b>Publication Paper</b>	Demand prospects uncertain for magazine grades, and remain weak for newsprint.	Prices continue to decline for newsprint; some downward pressure possible for magazine grades.
<b>Coated Fine Paper</b>	Demand expected to stagnate.	Outlook for prices mixed.

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**Priorities**

# Priorities

- The Group priority is ROCE improvement
- Value creation - not market share or size
  - Value creation starts at ROCE above cost of capital
- 13 % Group target reaffirmed
  - Individual improvement targets by business



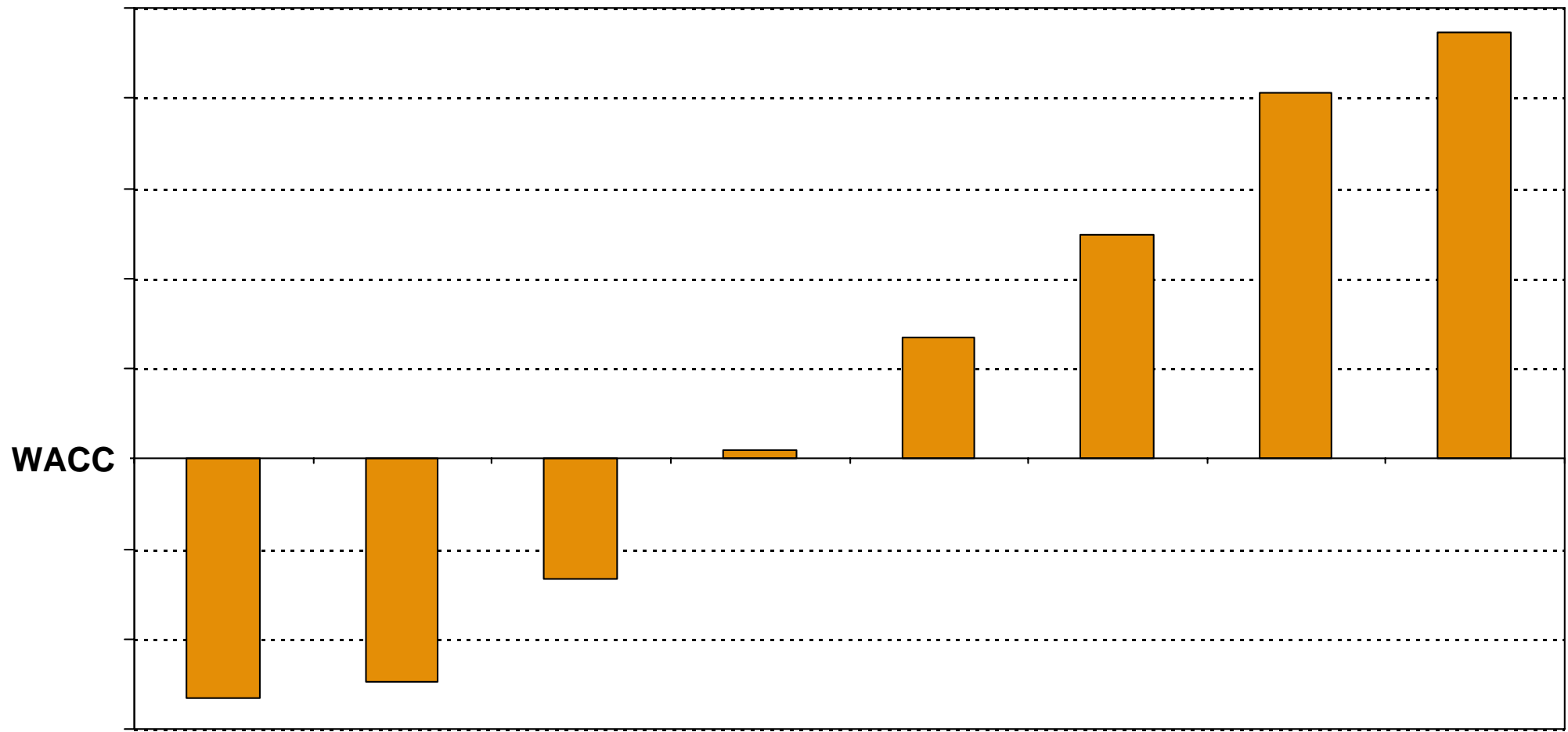
# Select the Battles to Win

## Path Forward

- Portfolio review
- Find solutions for businesses
  - Not creating value
  - With limited strategic fit
- Create efficient organisation; cost and speed
- Invest (to win) in value creators
- Get & stay on earnings improvement path

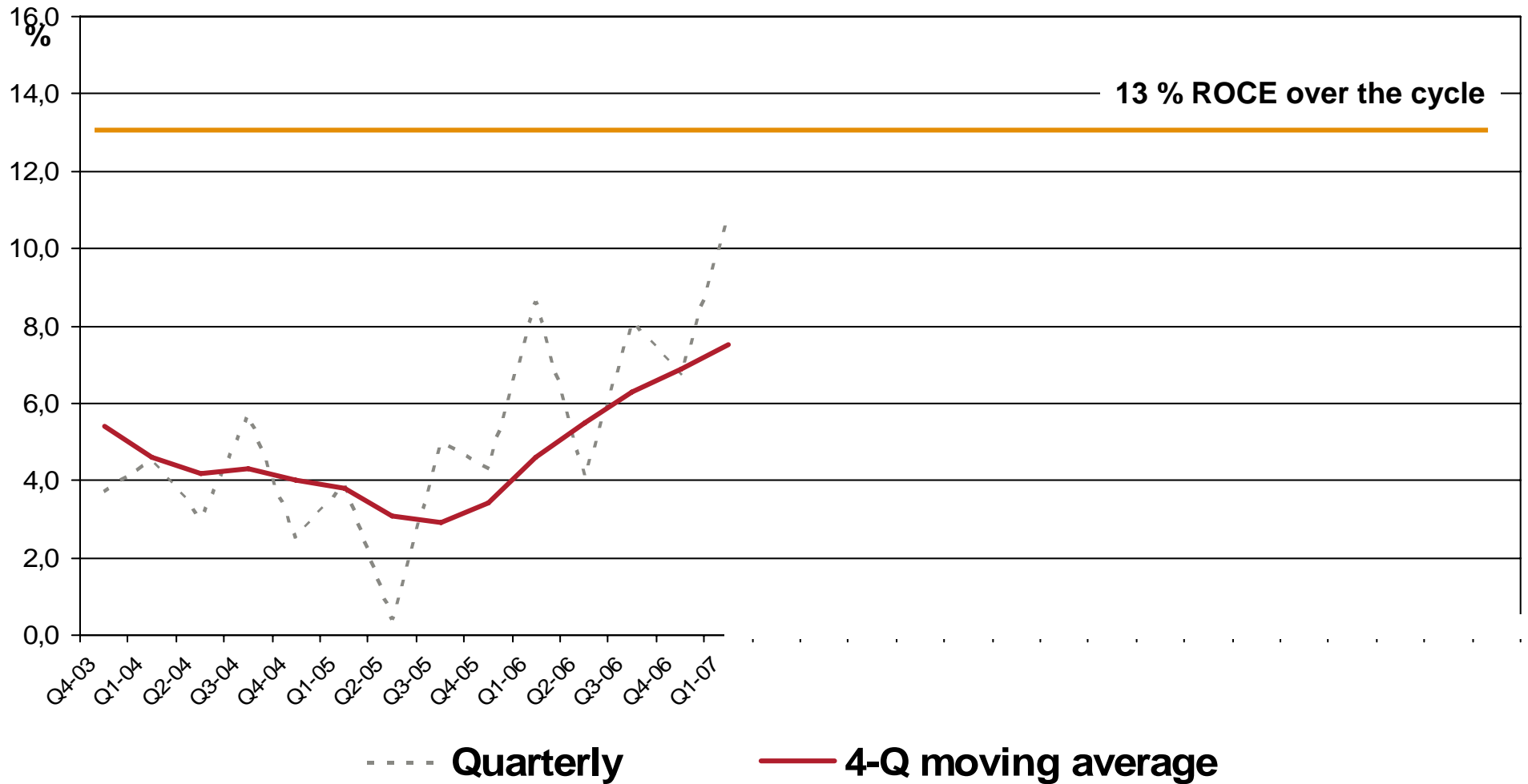
# Value Creation

## ROCE – WACC by Mill Business Area



# Improvement Path

## Group ROCE Q4/2003-Q1/2007



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

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**Summary**

# Summary

- Great start for 2007 - proud of the team
- Short term challenges
  - Continue to manage wood supply
- Portfolio review progressing well
  - Decisions & actions to be communicated when made
- Committed to Group ROCE 13% over the cycle
  - Improvement is the metric of success
- Maintain positive momentum

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information

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**Appendix**

## First Quarter Events

- Loan agreement with European Investment Bank for a EUR 140 million loan facility for financing research and development in Finland and Sweden.
- Expansion of corrugated packaging business in Eastern Europe and Russia by constructing new plants at Balabanovo in Russia and Komarom in Hungary.
- Announcement of planned closure of Sauga Sawmill in Estonia in June 2007.
- Agreement with Neste Oil to join forces to develop technology for producing new-generation biofuels from wood residues.

# Summary Financials



EUR million	2006	IV/06	I/06	I/07	% Change Q107/Q106	% Change Q107/Q406
Sales (EUR million)	14 594	3 732	3 608	3 855	6.9	3.3
EBITDA* (EUR million)	1 873	472	516	569	10.2	20.4
Operating profit* (EUR million)	782	188	247	307	24.4	63.8
Operating profit (EUR million)	648	248	224	339	51.6	37.0
Profit before tax* (EUR million)	602	141	211	275	30.3	94.3
Net profit (EUR million)	589	265	226	222	-1.7	-16.0
Earnings per share* (EUR)	0.55	0.13	0.20	0.26	30.0	100.0
Earnings per share, basic (EUR)	0.74	0.33	0.29	0.28	-3.4	-15.2
Cash earnings per share* (EUR)	1.94	0.49	0.54	0.59	9.3	20.4
ROCE* (%)	6.8	6.7	8.5	10.8	27.1	61.2
Debt/Equity	0.54	0.54	0.72	0.60	-16.7	11.1

\*excluding non-recurring items

# Net Financial Items

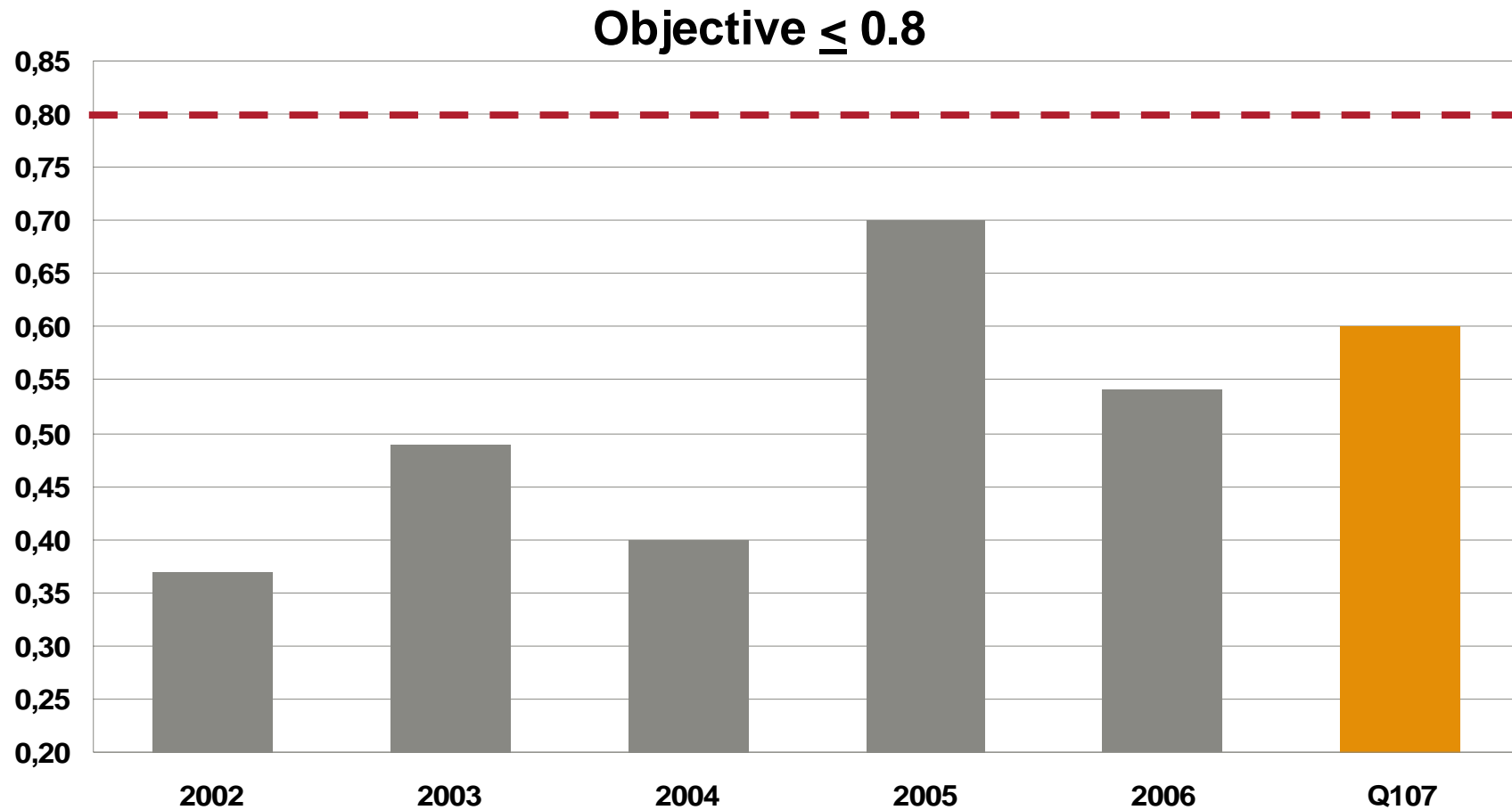
EUR million	Q4/2006	Q1/2006	Q1/2007	% Change Q107/Q106	% Change Q107/Q406
Interest income, deposits	6.5	4.8	6.4	33.3	-1.5
Interest expenses, borrowings	-69.8	-66.5	-68.0	-2.3	2.6
Interest rate swaps	4.9	8.9	0.9	-89.9	-81.6
<b>Net Interest Expense</b>	<b>-58.4</b>	<b>-52.8</b>	<b>-60.7</b>	<b>-15.0</b>	<b>-3.9</b>
<b>Foreign Exchange Gains and Losses</b>	<b>-11.0</b>	<b>-7.0</b>	<b>3.6</b>	<b>n/a</b>	<b>n/a</b>
<b>Other Financial Items, of which</b>	<b>30.8</b>	<b>122.1</b>	<b>0.4</b>	<b>-99.7</b>	<b>-98.7</b>
Capital gains, listed shares	37.6	136.7	1.0	-99.3	-97.3
Unrealised fair valuation of financial items	-5.2	-8.9	0.7	n/a	n/a
Other items	-1.6	-5.7	-1.3	77.2	18.8
<b>Net Financial Items Total</b>	<b>-38.6</b>	<b>62.3</b>	<b>-56.7</b>	<b>n/a</b>	<b>-46.9</b>

# Non-recurring Items Effect During Q1 2007

	Excluding non-recurring items	Non-recurring items	IFRS
EBITDA (EUR million)	568.9	43.8	612.7
EBIT (EUR million)	307.3	32.0	339.3
Profit after financial items (EUR million)	274.8	32.0	306.8
Tax effect	-67.6	-16.7	-84.3
Net profit (EUR million)	207.2	15.3	222.5
EPS (EUR)	0.26	0.02	0.28

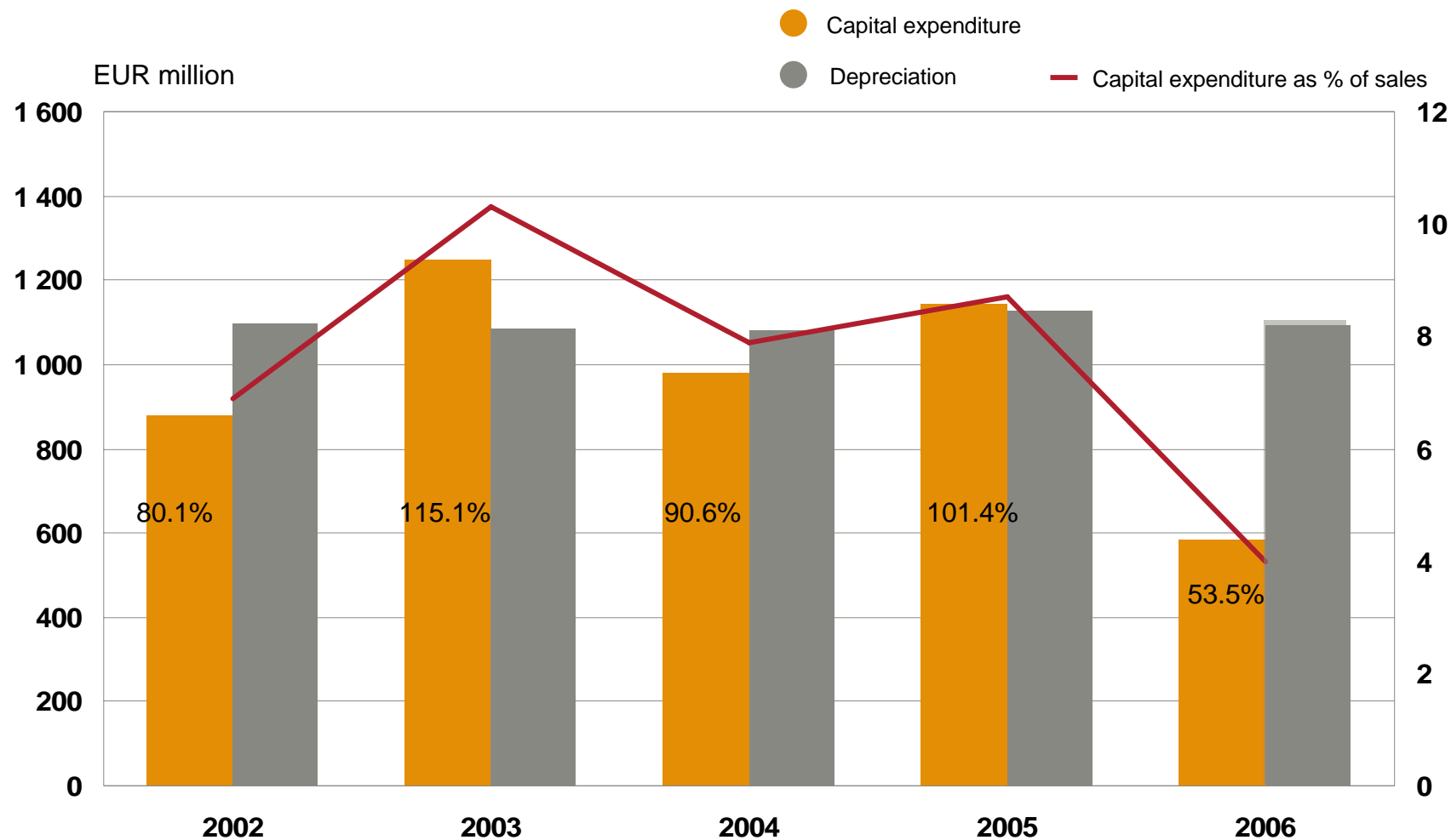
# Debt/Equity

## 2002 – Q1/07



# Capital Expenditure and Depreciation

## 2002 – 2006



# Non Operational Items – Reclassification

## EUR million

- As previously reported, the operating profit has included non-cash fair valuation items from Share Based Payments and CO2 Emission rights.
- The impact of Total Return Swaps (“TRS”) which are hedging the synthetic options have been reported in financial items.
- From Q1/07 onwards the TRS impact is combined with the option fair valuation. The comparative figures have been reclassified accordingly.

<u>Originally Reported</u>	<u>Q1-06</u>	<u>Q2-06</u>	<u>Q3-06</u>	<u>Q4-06</u>	<u>Y2006</u>
<b>Operational EBIT</b>	<b>211.7</b>	<b>164.6</b>	<b>199.5</b>	<b>193.7</b>	<b>769.5</b>
Non-Operational Items	-17.6	17.6	-4.3	-7.7	-12.0
<b>EBIT excl NRIs</b>	<b>194.1</b>	<b>182.2</b>	<b>195.2</b>	<b>186.0</b>	<b>757.5</b>
Non-Recurring Items	-23.2	6.7	-177.2	60.0	-133.7
<b>EBIT</b>	<b>170.9</b>	<b>188.9</b>	<b>18.0</b>	<b>246.0</b>	<b>623.8</b>
Net Financial Items	115.2	-149.2	-8.4	-37.0	-79.4
Associated Companies	31.6	20.2	10.2	25.4	87.4
<b>Pre-Tax Profit</b>	<b>317.7</b>	<b>59.9</b>	<b>19.8</b>	<b>234.4</b>	<b>631.8</b>

<u>Reclassification</u>	<u>Q1-06</u>	<u>Q2-06</u>	<u>Q3-06</u>	<u>Q4-06</u>	<u>Y2006</u>
<b>Operational EBIT</b>					
Non-Operational Items	52.9	-64.0	34.1	1.6	24.6
<b>EBIT excl NRIs</b>	<b>52.9</b>	<b>-64.0</b>	<b>34.1</b>	<b>1.6</b>	<b>24.6</b>
Non-Recurring Items					
<b>EBIT</b>	<b>52.9</b>	<b>-64.0</b>	<b>34.1</b>	<b>1.6</b>	<b>24.6</b>
Net Financial Items	-52.9	64.0	-34.1	-1.6	-24.6
Associated Companies					
<b>Pre-Tax Profit</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<u>Reclassified</u>	<u>Q1-06</u>	<u>Q2-06</u>	<u>Q3-06</u>	<u>Q4-06</u>	<u>Y2006</u>
<b>Operational EBIT</b>	<b>211.7</b>	<b>164.6</b>	<b>199.5</b>	<b>193.7</b>	<b>769.5</b>
Non-Operational Items	35.3	-46.4	29.8	-6.1	12.6
<b>EBIT excl NRIs</b>	<b>247.0</b>	<b>118.2</b>	<b>229.3</b>	<b>187.6</b>	<b>782.1</b>
Non-Recurring Items	-23.2	6.7	-177.2	60.0	-133.7
<b>EBIT</b>	<b>223.8</b>	<b>124.9</b>	<b>52.1</b>	<b>247.6</b>	<b>648.4</b>
Net Financial Items	62.3	-85.2	-42.5	-38.6	-104.0
Associated Companies	31.6	20.2	10.2	25.4	87.4
<b>Pre-Tax Profit</b>	<b>317.7</b>	<b>59.9</b>	<b>19.8</b>	<b>234.4</b>	<b>631.8</b>

# Non Operational Items

## EUR million

*As earlier reported:*

<u>Non-Operational Items</u>	<u>Q1-06</u>	<u>Q2-06</u>	<u>Q3-06</u>	<u>Q4-06</u>	<u>Y2006</u>	<u>Q1-07</u>
IFRS 2 option valuation (non-cash)	-17.6	17.6	-12.0	-4.9	<b>-16.9</b>	-12.0
CO2 emission rights (non-cash)	0.0	0.0	7.7	-2.8	<b>4.9</b>	-3.7
<b>Total (Operating Profit)</b>	<b>-17.6</b>	<b>17.6</b>	<b>-4.3</b>	<b>-7.7</b>	<b>-12.0</b>	<b>-15.7</b>

<u>TRS</u>	<u>Q1-06</u>	<u>Q2-06</u>	<u>Q3-06</u>	<u>Q4-06</u>	<u>Y2006</u>	<u>Q1-07</u>
Cash Impact	11.2	-2.8	-1.9	9.0	<b>15.5</b>	13.3
Fair Valuation Impact (non-cash)	41.7	-61.2	36.0	-7.4	<b>9.1</b>	18.1
<b>Total (Financial Items)</b>	<b>52.9</b>	<b>-64.0</b>	<b>34.1</b>	<b>1.6</b>	<b>24.6</b>	<b>31.4</b>

*From Q1/2007 onwards:*

<u>Non-Operational Items</u>	<u>Q1-06</u>	<u>Q2-06</u>	<u>Q3-06</u>	<u>Q4-06</u>	<u>Y2006</u>	<u>Q1-07</u>
IFRS 2 option valuation	-17.6	17.6	-12.0	-4.9	<b>-16.9</b>	-12.0
Total Return Swaps	52.9	-64.0	34.1	1.6	<b>24.6</b>	31.4
CO2 emission rights	0.0	0.0	7.7	-2.8	<b>4.9</b>	-3.7
<b>Total (Operating Profit)</b>	<b>35.3</b>	<b>-46.4</b>	<b>29.8</b>	<b>-6.1</b>	<b>12.6</b>	<b>15.7</b>

<u>Of which</u>	<u>Q1-06</u>	<u>Q2-06</u>	<u>Q3-06</u>	<u>Q4-06</u>	<u>Y2006</u>	<u>Q1-07</u>
Cash	11.2	-2.8	-1.9	9.0	<b>15.5</b>	13.3
Non-Cash	24.1	-43.6	31.7	-15.1	<b>-2.9</b>	2.4
<b>Total (Operating Profit)</b>	<b>35.3</b>	<b>-46.4</b>	<b>29.8</b>	<b>-6.1</b>	<b>12.6</b>	<b>15.7</b>

# Operating Profit by Division



EUR million	II/06	III/06	IV/06	I/06	I/07	% Change Q107/Q106	% Change Q107/Q406
Publication Paper	55.3	57.0	69.0	70.3	63.5	-9.7	-8.0
% of sales	4.8	4.6	5.6	6.0	5.1	-15.0	-8.9
Fine Paper	46.3	32.4	34.6	52.7	61.5	16.7	77.7
% of sales	6.3	4.5	4.8	6.8	8.3	22.1	72.9
Packaging Boards	70.8	93.7	59.4	99.5	106.5	7.0	79.3
% of sales	8.0	10.3	6.8	11.4	11.6	1.8	70.6
Wood Products	14.9	21.4	19.0	3.8	53.7	n/m	182.6
% of sales	3.4	5.1	4.3	1.0	11.2	n/m	160.5

excluding non-recurring items

# Publication Paper

EUR million	IV/06	I/06	I/07	% Change Q107/Q106	% Change Q107/Q406
Sales	1 230.5	1 171.0	1 240.5	5.9	0.8
Operating profit*	69.0	70.3	63.5	-9.7	-8.0
% of sales	5.6	6.0	5.1	-15.0	-8.9
ROOC, %**	7.0	6.8	6.5	-4.4	-7.1
Deliveries, 1 000 t	1 860	1 666	1 824	9.5	-1.9
Production, 1 000 t	1 843	1 717	1 882	9.6	2.1

\*) excluding non-recurring items

\*\*\*) 100% x Operating profit/Operating capital

## In Europe:

- Newsprint demand was unchanged, magazine paper demand improved significantly compared to previous year. Demand for all publication paper grades was seasonally weaker than in previous quarter. Producer inventories increased in newsprint and uncoated magazine paper but decreased in coated magazine paper compared to previous year. Compared to the previous quarter all producer inventories increased.
- Prices were higher for newsprint and lower for magazine paper compared to previous year and quarter. Annual newsprint negotiations were concluded with price increases averaging 5% agreed for 2007.

## In North America:

- Demand was clearly weaker than a year ago for newsprint, stronger in uncoated magazine paper and fairly stable in coated magazine paper. Demand for all publication paper grades was weaker than previous quarter.
- Inventories increased considerably and prices were lower in all product segments compared to previous year and quarter.

EUR million	IV/06	I/06	I/07	% Change Q107/Q106	% Change Q107/Q406
Sales	718.3	776.3	738.6	-4.9	2.8
Operating profit*	34.6	52.7	61.5	16.7	77.7
% of sales	4.8	6.8	8.3	22.1	72.9
ROOC, %**	6.4	8.2	11.4	39.0	78.1
Deliveries, 1 000 t	946	994	966	-2.8	2.1
Production, 1 000 t	947	1 029	951	-7.6	0.4

\*) excluding non-recurring items

\*\*\*) 100% x Operating profit/Operating capital

## In Europe:

- Coated fine paper demand stronger than a year ago and slightly stronger than in the previous quarter; prices remained almost unchanged compared to previous year and quarter.
- Uncoated fine paper demand slightly stronger than a year ago and clearly stronger than previous quarter; prices rose compared to previous year and quarter.

## In North America:

- Coated fine paper demand weakened slightly compared to previous year but was slightly stronger than in the previous quarter for seasonal reasons; prices were lower than a year ago but decreased compared to the previous quarter.

# Packaging Boards

EUR million	IV/06	I/06	I/07	% Change Q107/Q106	% Change Q107/Q406
Sales	871.7	869.0	919.8	5.8	5.5
Operating profit*	59.4	99.5	106.5	7.0	79.3
% of sales	6.8	11.4	11.6	1.8	70.6
ROOC, %**	8.6	13.9	15.4	10.8	79.1
Deliveries, 1 000 t	929	959	1 000	4.3	7.6
Production, 1 000 t	950	1 005	1 000	-0.5	5.3

\*) excluding non-recurring items

\*\*\*) 100% x Operating profit/Operating capital

- Consumer Boards demand was generally good and volumes are higher than in the previous quarter and similar to a year ago. Prices improved slightly.
- Industrial Packaging demand was good with volumes and prices higher than in the previous quarter and a year ago.

# Wood Products

EUR million	IV/06	I/06	I/07	% Change Q107/Q106	% Change Q107/Q406
Sales	443.0	377.1	479.8	27.2	8.3
Operating profit*	19.0	3.8	53.7	n/m	182.6
% of sales	4.3	1.0	11.2	n/m	160.5
ROOC, %**	11.6	2.3	32.9	n/m	183.6
Deliveries, 1 000 m <sup>3</sup>	1 670	1 563	1 666	6.6	-0.2

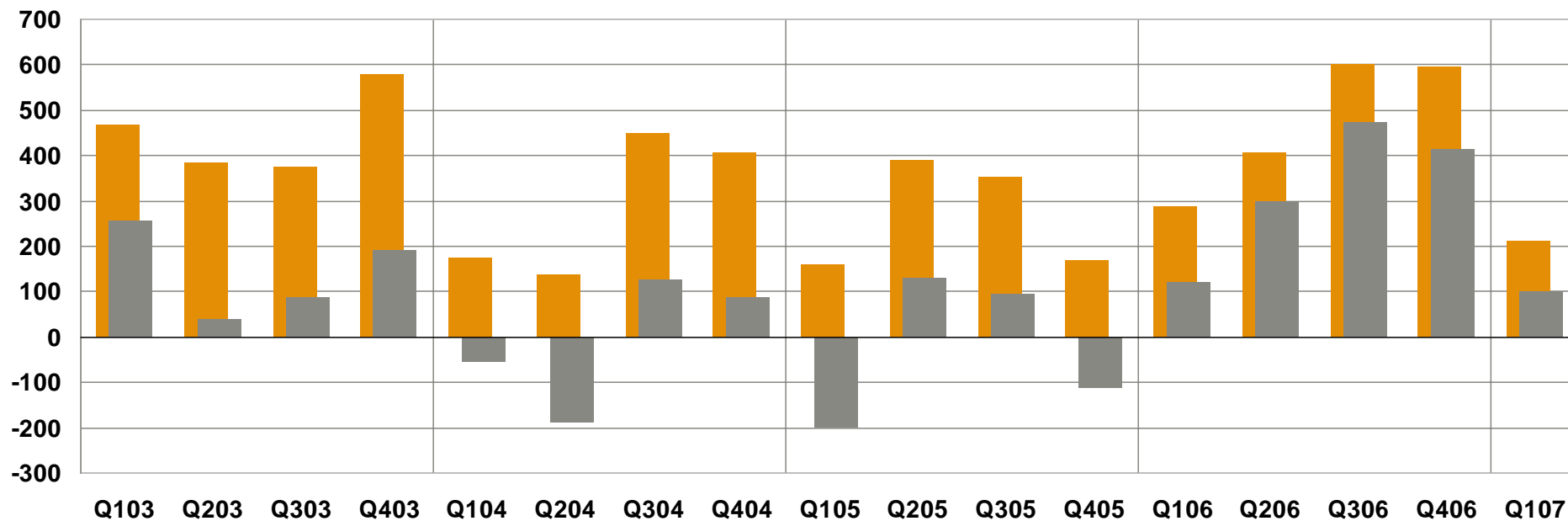
\*) excluding non-recurring items

\*\*\*) 100% x Operating profit/Operating capital

- Market demand improved compared to the previous year except in the USA; slowdown in the US housing market has reduced sawnwood demand and prices have fallen in the USA. In other markets good demand, low stock levels and rapid raw material cost escalation supported sharp rises in market prices
- Compared to the previous quarter demand remained strong in most product categories in Europe, Asia, North Africa and the Middle East, and prices continued to rise. North American markets remained depressed with weak demand and low prices.

# Operating Cash Flow

EUR million

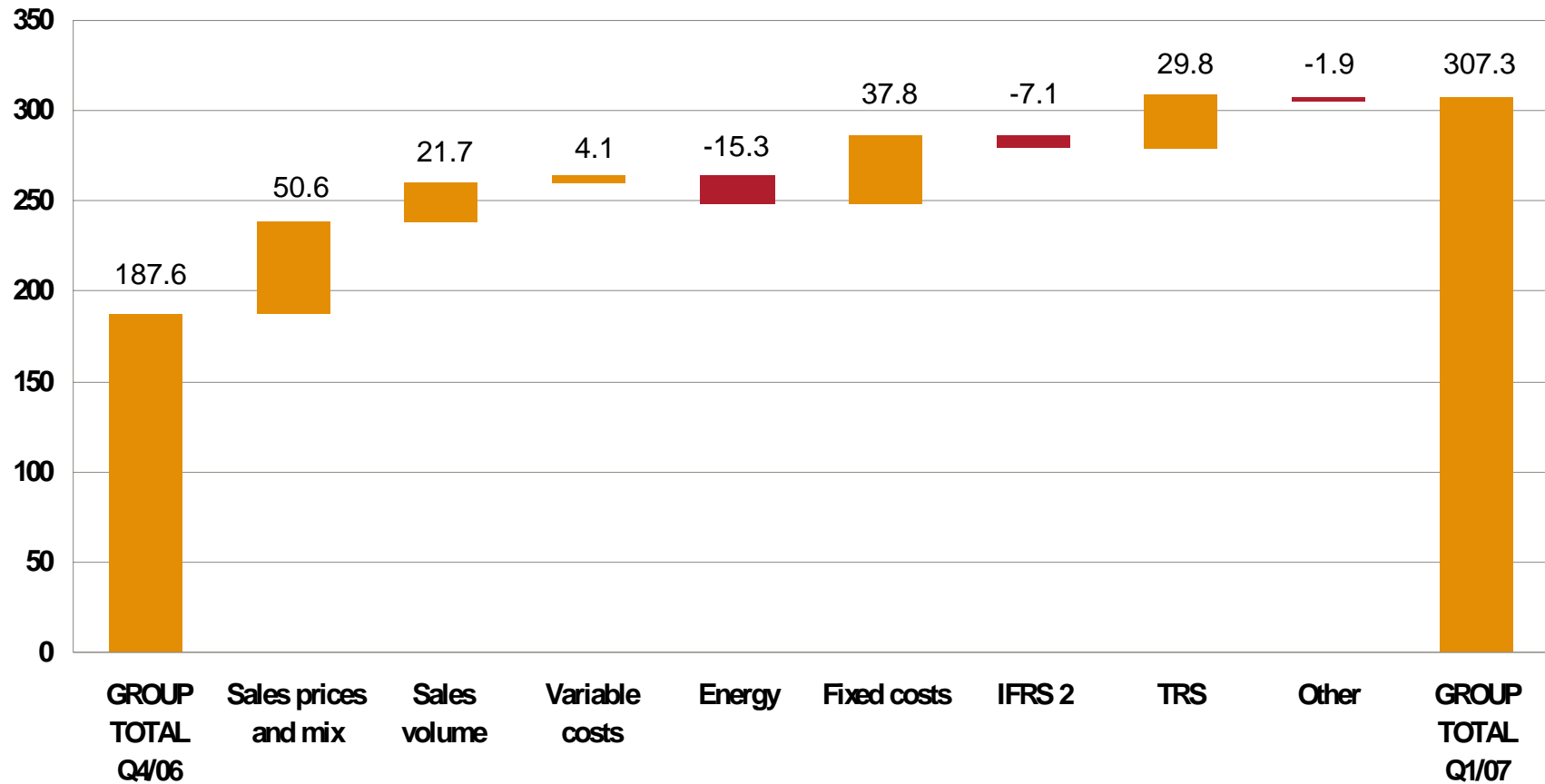


- Cash flow from operations
- Cash flow after investing activities

# Change in Operating Profit

## Q4/06 – Q1/07

EUR million

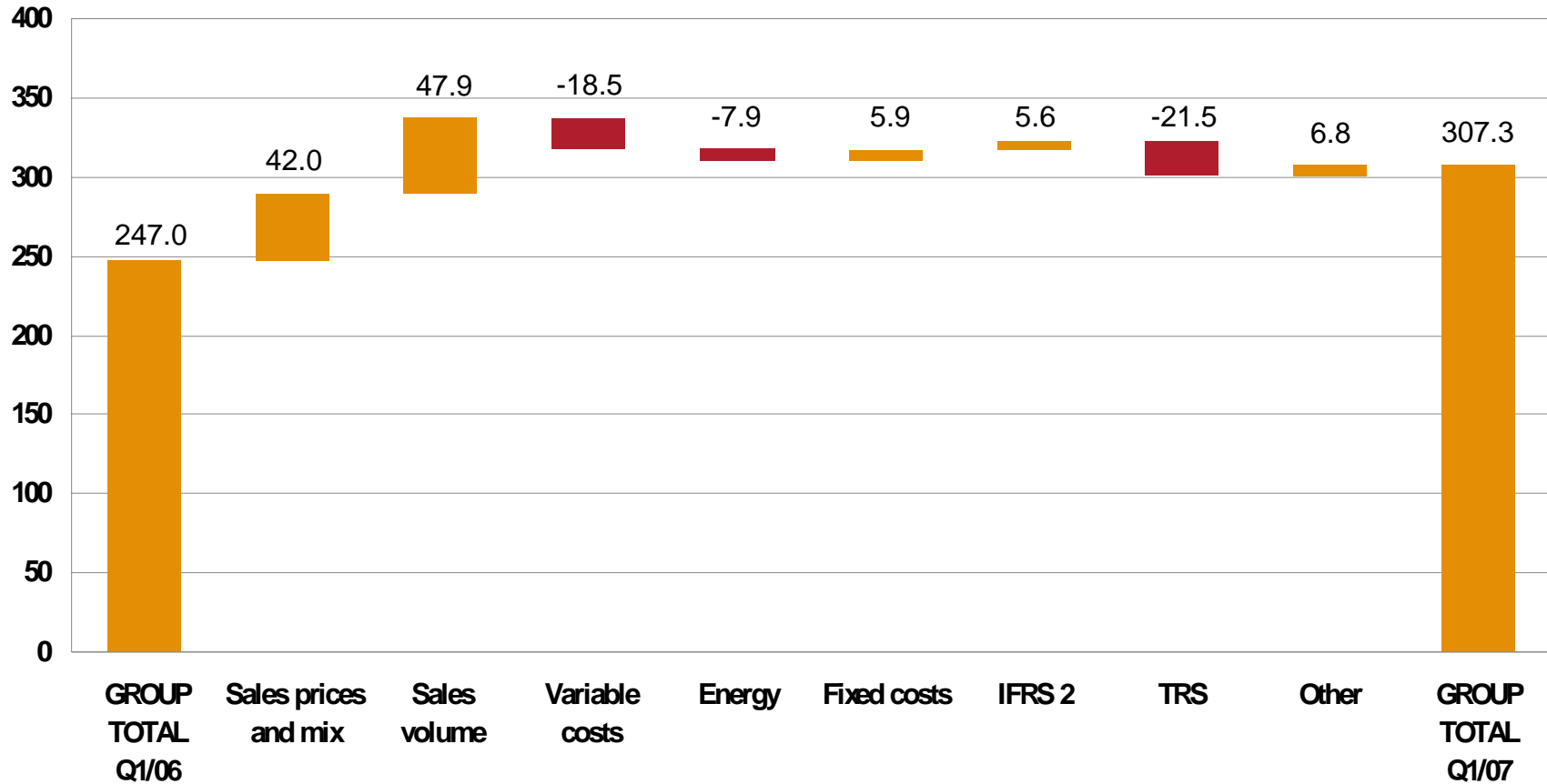


excluding non-recurring items

# Change in Operating Profit

## Q1/06 – Q1/07

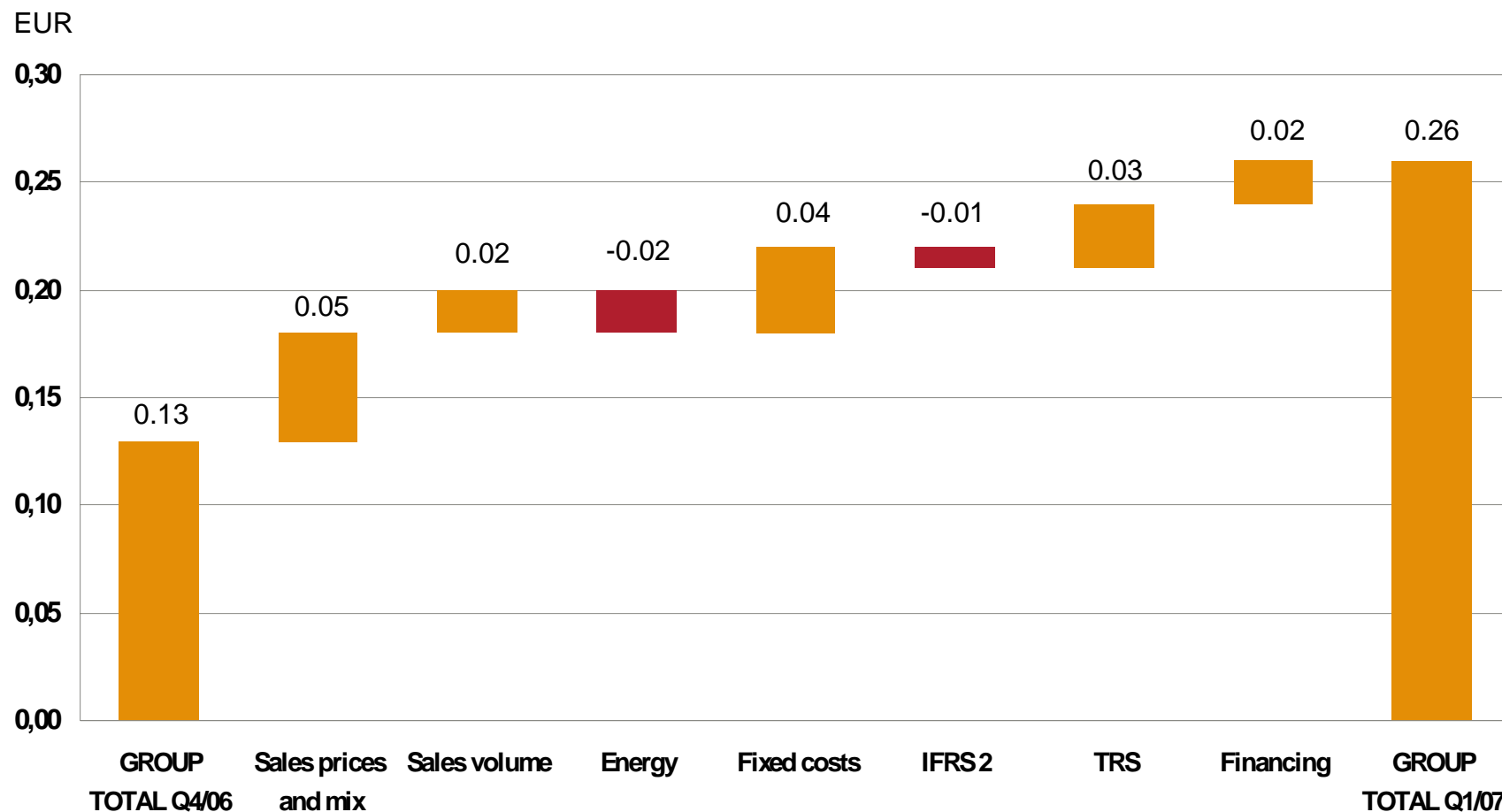
EUR million



excluding non-recurring items

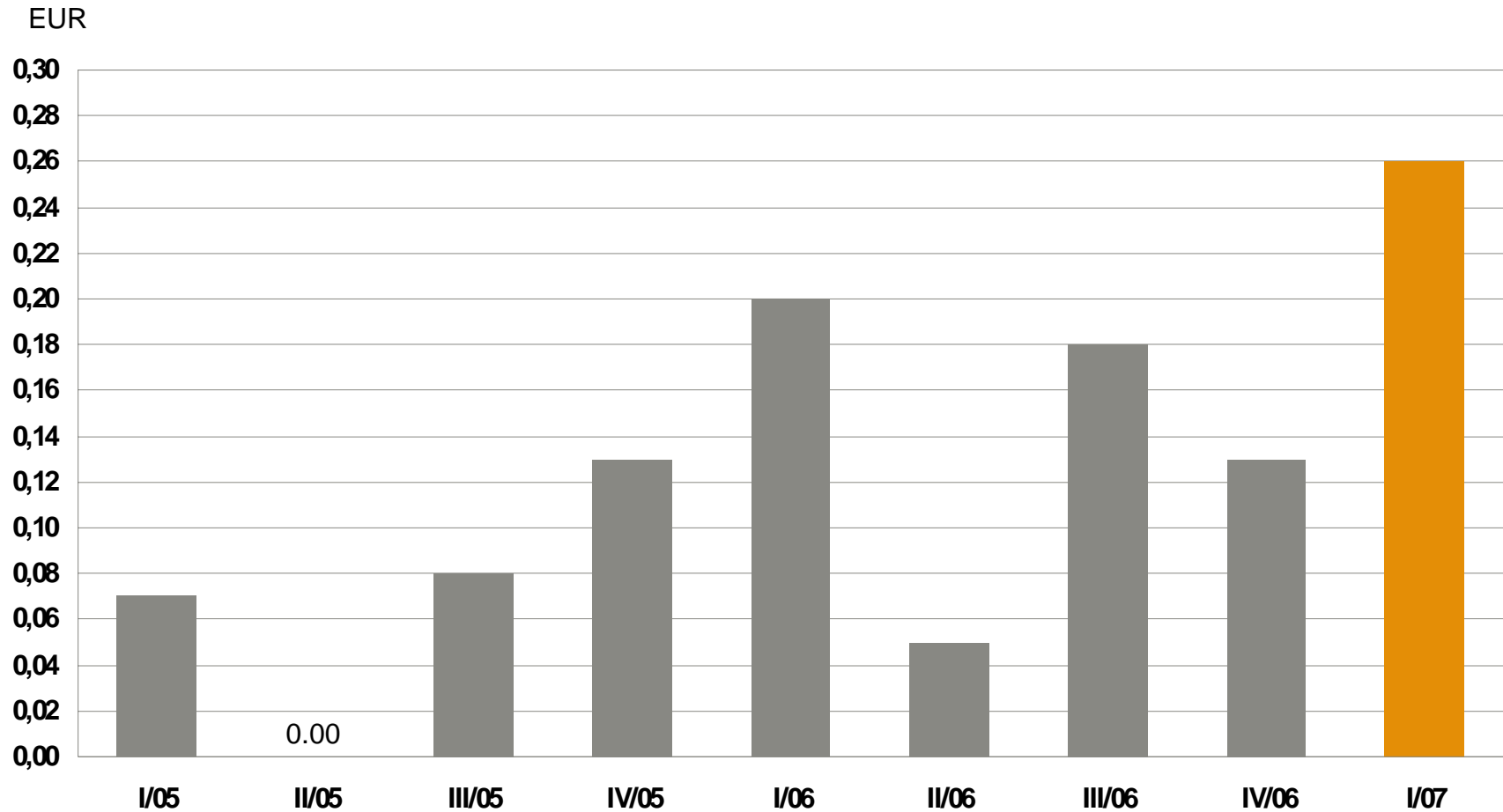
# Change in EPS

## Q4/06 – Q1/07



Excluding non-recurring items

# EPS by Quarter

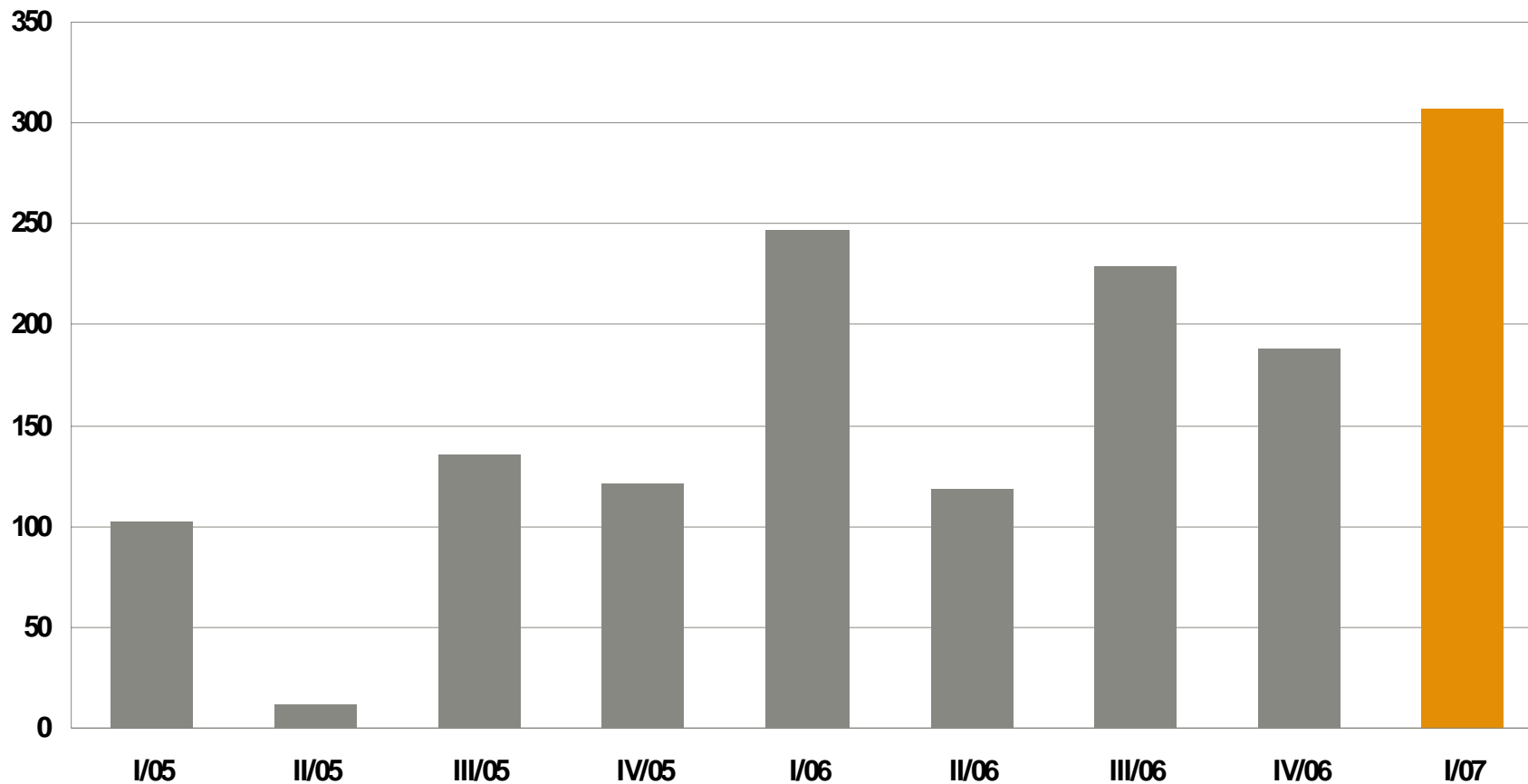


excluding non-recurring items

# Operating Profit by Quarter

## 2005 – Q1/07

EUR million



excluding non-recurring items and goodwill amortisation