

# **STORA ENSO**

## **MEDIA PRESENTATION**

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### **Kari Vainio**

**Executive Vice President – Corporate Communications  
Stora Enso**

Thank you, and welcome everybody. This is Kari Vainio, from Stora Enso international office, London. Welcome to our media conference call and webcast. I have here in London Jouko Karvinen and Hannu Ryooponen, who will first give their presentations and then after that, we will have time for Q&As. And I'd just like to remind you that there is another conference call for analysts [and] investors later today. We have some participants from the financial [circles] already in this webcast. But there, there will be another call later today. So let's start, and I will give the [word] to Jouko and Hannu.

### **Jouko Karvinen**

**Chief Executive Officer  
Stora Enso**

Very good. Thank you, Kari. This is Jouko Karvinen, and welcome everybody. Thanks for taking the time to listen to us today. I will give a short briefing together with Hannu on to-date news and then we'll obviously open up for your questions. If you could please, Keith, get the slide number 4, which is the driving force of the new organisation. So we have announced today a new organisation for the Stora Enso Group effective immediately. And if you look at the motivation for the changes [inaudible] [sale], an internal side on this company internal side, I've fairly openly said that since day one of my tenure in the company, actually starting from January, I have felt in a few situations, that we're fairly complex, i.e., it isn't totally clear on who is getting what done, who's responsible for what. I felt that if you looked at the total structure, we've got quite a few layers on the organisation. As you can see from today's announcement, in two large areas, specifically publication and packaging, we're effectively taking a layer off the organisation.

Focus on a business and I always define a business as an entity that has largely its synergies mostly inside the business, i.e., its own customers, its own input costs, assets and so forth. That's one key driver [where] I'm making North America also a business area which is with its own P&L.

The goal is simple. We need to not only make faster decisions but execute faster, because [finally] we're in a hurry to improve. Obviously there are external factors. On the same slide, cost increases. Wood cost has been the [whole] subject of this year. We very [explicitly] on Q2 in July released a notice [inaudible], with the statement that we believe that the combination of the short winter and the Russian duty situation will increase our cost inflation in 2007 about 1 point.

And I want to be very clear. When we talk about the impairment test, that's the cost base we're done our impairment testing, was exactly for the accounting rules. The test is not done on some new cost data. All right?

Also, energy. Nobody talks about it this year, but if you look at the year ago, or a little more than that, that's been a clearly increasing trend. There are supply-demand issues in some segments – magazine paper to mention one – that need to be solved. And like we also said today, some of the currency movements, specifically US dollar weakness versus some other currencies. It's a good example, a bad example. All in all, we – or I personally believe – and I have my new team supporting that thought is, we're not [inaudible] to look at the past seven years, the industry performance overall, or our performance, we need to both reduce our costs from the administration area, we need to also seriously consider capacity reductions in certain areas. And we believe that we want to be a part of the industry consolidation, which I also believe is a part of the asset that needs to happen.

If you move to slide 5, [what are] the objectives of the new organisation? Get very clear, first, on who's getting what done. And I use that maybe [big thing] is term there. We have to go from who's working on what into to what – who gets what done and improve the speed in that sense.

The de-layering of the organisation will get me closer to the business, and I believe will speed up decision-making. And then transparency will increase. Hannu will discuss in a minute more details on it, but on October 15, about 10 days before the third-quarter release, which will be based on the new reporting units, we will release the [internal] data based on the new units. And once you and the markets then get to see specifically obviously the eight reports instead of the old four global reports. We will be a more transparent company, outside and inside, in terms of our financial performance.

North America, critical market, clear market. Team has done a lot of very good work there. I will not disclose any numbers today. As I said, it will come on October 15<sup>th</sup>, but I can tell you that there is still more improvement to come, and there has to be more improvement to come. And the team in North America, with John, understands that very well.

Final bullet on the page. Facilitation of downwards and upwards scalability. What does it mean? I will now have a team where very specific businesses with strong synergy in them and clear customer groups report directly to me. So when we get to the point where we can look at industry consolidation, industry focus, restructuring

with possible other players, then I think the direct access to me on those businesses will help.

Next page, 6, we list the reporting units. Let me just spend a couple of minutes on the key people. Selection of the people was very consciously based on a few factors. One, obviously my own impressions, having spent a lot of time with these and other people in the past eight months. Two, a very thorough assessment of past performance of these leaders. What have they delivered and so forth? And three, because I'm so new, also an independent assessment of their capabilities, strengths and weaknesses and so forth.

It is the new team, six out of 10 are brand new. A and B, just in some comments I guess in the media for that. They're actually long-time Stora Enso executives and that's also by design. They all competed for the jobs, some even against external candidates, and they won their jobs based on their performance, track record and their capabilities.

So now I hope everybody agrees that we'll have, me and Hannu asking a lot of questions, why we could do things differently, and then we've got a lot of knowledge and energy in the team as well.

On the following page, we then list the three executives which are in the functional roles. My colleague Hannu here, who has now purchasing to his responsibility on the Group level.

Bernd Rettig, again, a long-time Stora Enso executive, absolutely a very capable executive in terms of technology, R&D, operations, logistics and so forth. Those are the areas where I see that we have to get a lot more of in terms of synergies, positive synergies, being a large Group. And those we'll do together. And the new team is very clear as things we do together we do together, and that's it. And then Christer Agren, who continues in the Group executive on HR, maybe a detail. We're splitting HR to HR Services and Leadership Development. Leadership Development, I think, is critical also, personal to me, and so I want a dedicated resource there.

Let me then go to page 8, the impairment charts. The impairment charts is something that has to, is something we do every year on the third quarter. The reason we are announcing it today in connection with the reorganisation, or the organisational change is that for the IAS rules, this reorganisation is the triggering even. and therefore, that's why the news comes out today. It is a test that's very well guided by the legislation. We do it based on our short- and long-term financial plan. Like I said before, we used the cost data that we already disclosed in the second quarter. And today we list the key reasons for the impairment. The reorganisation, because it's a flatter organisation, a de-layered organisation, has a significant impact on the fair valuation of the assets. And then the cost issues, like we list there – the wood cost – are also a significant part. The split of the EUR 1.3bn is about EUR 1bn in fixed assets and EUR 300m on goodwill. And we will then on October 15 also give the split between the different new business areas of the impairment.

I believe I leave it there, and if Hannu could then discuss briefly the implications and consequences [of/the] financial numbers before we conclude and open up for questions.

## **Hannu Ryooponen**

**Deputy CEO & CFO  
Stora Enso**

Thank you, Jouko, and good morning, everybody. I would first of all like to repeat what Jouko said, because we have seen some confusing comments in the media as well as online news and so on. This is not a profit warning or even intended to or hidden or anything else. This is an impairment charge that was triggered by the organisational change, i.e., the flattening of the organisation.

Some of this would have clearly come even under the old organisation under our routine third-quarter impairment testing. I think this is a very important thing to sort of keep in mind when you analyse this and write about it.

The charge itself has two main implications, [inaudible] factors that have driven it. One is the organisational change, in other words, testing the company at a different level than before. And secondly, there are the economic factors, with cost increases, interest rate increases, currency movement, magazine paper. They were already there and well-known in our Q2 releases, so there's nothing new to add to what we knew then, but would have shown up, in other words, as aspect of our impairment testing in the third quarter.

So just to reiterate on that aspect. Then to slide 9, and just to comment on that one. The one-time positive tax impact of EUR 100m comes from the fact that some of these impairment charges in certain jurisdictions are basically tax-deductible, and hence we will have a positive one-off EUR 100m on our tax line.

Our depreciation will reduce with around EUR 100m as our fixed asset base is reducing. So that is a possible EBIT impact. Obviously also non-cash. The capital employed is then reducing, with EUR 1.2bn, as there's a tax impact of EUR 100, which then together adds up to the EUR 1.3bn of total impairment charge.

Our earnings per share increases with 0.11 from, as a consequence of this event. The impairment charge. And our debt-equity worsens from 0.55 to 0.64, and the return on capital employed would have – from this has an impact of 1.4 percentage points.

These are all mathematical consequences of the impairment. It does not change our performance or our performance targets in that respect. Jouko will come probably back to that as well.

And then the last year on this page is the WACC change. We had a WACC last year of around 8.5, due to interest rate increases, the bond spread increase in the market of the financial market movement this summer, the conclusion of that is that our WACC now is 9.1 per cent for the Group, and ranging from 8.5 to 9.7 for the various businesses [in] all countries as their risk and volatility differs from the overall Group average.

Then you have some reporting. Before the 15<sup>th</sup>, or by the latest 15<sup>th</sup> of October we will give you the historical numbers organised and reported according to the new organisational structure. So that, in other words, up to and including Q2 of this year. And also at that point, we will give the details of how the still approximately

EUR 1.3bn of impairment charge is distributed and attributable to the various businesses and regions and so forth.

Furthermore, just a note that this EUR 1.3bn is approximate, first of all, right now. It is based on foreign exchange rate at the end of July, and the final charge will only be actually be finalised when we have the year-end numbers at the end of this fiscal year, i.e., December. So there will be movement driven by pure spot rate movement of the exchange rates.

I think I'll stop there, and give it back to you, Jouko.

### **Jouko Karvinen**

Very good. Thank you, Hannu. A few more slides and then we'll open up for questions.

Just to summarise the short-term of the – today's objectives.

Obviously my goal is to strengthen with the new team the company and improve profitability. That is the number one, two, three priority of the company. It is not size or market share. And I've said it maybe too many times, but I repeat it today. That's the goal of the new team also.

In the next several days and weeks, we'll complete the new organisation, be it the North American team details or some of the other BAs. We'll do it very fast. The work's been going on. We need to keep moving the business. We can't end up in a long reorganisation battle.

Like I said before, not just decision-making, but we need to speed up the execution of necessary structural changes be it on our administration cost or some of our poorly performing businesses and assets. And yes, we will try to be a very active part also in the industry restructuring.

I believe I'll stop there and I think, Kari, do you want to facilitate the Q&A now?

### **Kari Vainio**

Thank you [inaudible], Hannu. Operator, we are ready for the questions now.

## **Question and Answer Session**

### **Operator**

[OPERATOR INSTRUCTIONS]. And we will now move to our first question from Dan Lukas from Dagens Nyheter. Please go ahead, sir.

### **Speaker**

Thank you. My question – well, I have two questions, really. The first is what will the impact be on employees, specifically a number of employees, and secondly, the increased wood cost, and specifically the Russian export duties. Can you specify how much of the impairment charge is indeed an effect of the rising export duties from Russia?

**Jouko Karvinen**

Thank you for the question. This is Jouko Karvinen. First, the impact on employees. While you can answer it in many ways. First, when I say that we will have to do structural changes, reduce our costs, it is clear and I'm not trying to hide it, once we get now the new team going, which is today, there will be some implications on employees. I cannot specify or quantify them today. You know just as well as I do that that's not the path, the way this process works. But that's one impact.

On the positive side, if I can fulfil the objectives the new organisation, then obviously for the vast majority of Stora Enso employees, this better be good news, because when we're successful, people want to be a part of a successful company, even if it will mean negative things for a minority of the population.

And I'll be very open. I've been very open in my employee letter this morning. I'll be very open with the conference calls today. I have [to be] honest and transparent in that.

That's the first answer. The second answer is Russian duties. We will, on the 15<sup>th</sup> of October, as we said in the press release, [later] show how much of the impairment charge is attributed to the various business areas, the new reporting units. We will not give even then exact numbers on how much of the impairment charge is A, the simplification of the organisation, and how much is then cost.

Let me say, though, that the most significant single factor in the impairment charge, which is based on the [sounding] rules, is the de-layering and simplification of the organisation. The overall cost increase is the second biggest. It's not only wood, but obviously wood is there. But it's dramatically less than the organisational structure.

I would if you accept, leave the answer there, because otherwise it gets too specific.

**Speaker**

Okay. Thanks.

**Hannu Ryoopponen**

It's Hannu here. If I could add one thing to this, just as clarification. What we are doing now is not a restructuring charge for possible closures and so on, which would have direct employee impact. But rather, a adjustment of our balance sheet values reflect the current operational cash flows. Though a restructuring cost is something very different, and is not directly reflected in this. And there's no direct employee impact.

**Jouko Karvinen**

If it's a good addition, and maybe just continue on that path. To be very clear, the accounting rules are such that in fact you may not and cannot include in your impairment test any potential planned future cost reduction programmes or capacity reduction programs. This is the going concern calculation. So you should not misread this as a restructuring calculation.

**Speaker**

Okay.

**Operator**

Thank you. We would now move to our next question from Juko Erkiheikki, from Bloomberg. Please go ahead, sir.

**Speaker, Bloomberg**

Hello. It's Juko from Bloomberg. Two questions, please. One would be about your North American operations. You say in due course we'll hear more information. Can you be more specific? And also, do you anticipate a third increase in your WACC?

**Jouko Karvinen**

Okay. I'll take the first one, and Hannu will take the WACC? question. We're talking several weeks. We're talking very rapid, the process ongoing, John Gillen, who's been a great support for me throughout the year from my first week in January, John and I working very closely to see how do we optimise that structure, make it very customer-focused, very lean and mean, so forth and so on. So that's the timeline on that.

Maybe Hannu, you want to take the WACC?

**Hannu Ryoopponen**

The WACC, we establish once a year, which is this time of the year, and therefore a WACC movement unless we have dramatic changes in the financial markets over the next 12 months, essentially, we would maintain the WACC at this level. That's totally in the line with our procedure, how we establish our internal discount rates and so on.

**Speaker, Bloomberg**

Thank you.

**Jouko Karvinen**

Okay. I'll take the first one, and Hannu will take the WACC question. We're talking

**Stora Enso Speaker**

The next one please?

**Operator**

Thank you. [OPERATOR INSTRUCTIONS]. As there are no further questions at this time, I would like to turn the call back over to you, gentlemen, for any additional or closing remarks.

**Stora Enso Speaker**

Okay. Thank you. So we are ready for the final remarks from Jouko. Jouko, please.

**Jouko Karvinen**

Very good. I won't repeat my whole story. Let me just say that this is important. I am absolutely convinced that [through] very hard work in the past five months that I've got a team around me who will be powerful and successful and will go as far as saying if the improvements that I've been promising will not happen, then blame me. It's not the team. It's a very powerful team, and I'm convinced we will move forward very rapidly. I think that's where I stop.