

Global Local. Responsible

**CPBIS/IPST
Distinguished Lecture
Series**

What Drives Consolidation in the Paper Industry?

22 November 2002

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Stora Enso Today

Stora Enso in Brief



Timber
Products



News-
print

Magazine
Paper



Fine
Paper



Packaging
Boards

- One of the top two forest products companies in the world, by capacity:
 - 15 million tonnes of paper and board; 5.8 million m³ of sawn products
- Sales EUR 13.5 billion; five core business areas
- 43 000 employees in 40 countries
- Market capitalization: EUR 10 billion
- Shares listed on Helsinki, Stockholm and New York stock exchanges

Stora Enso Vision

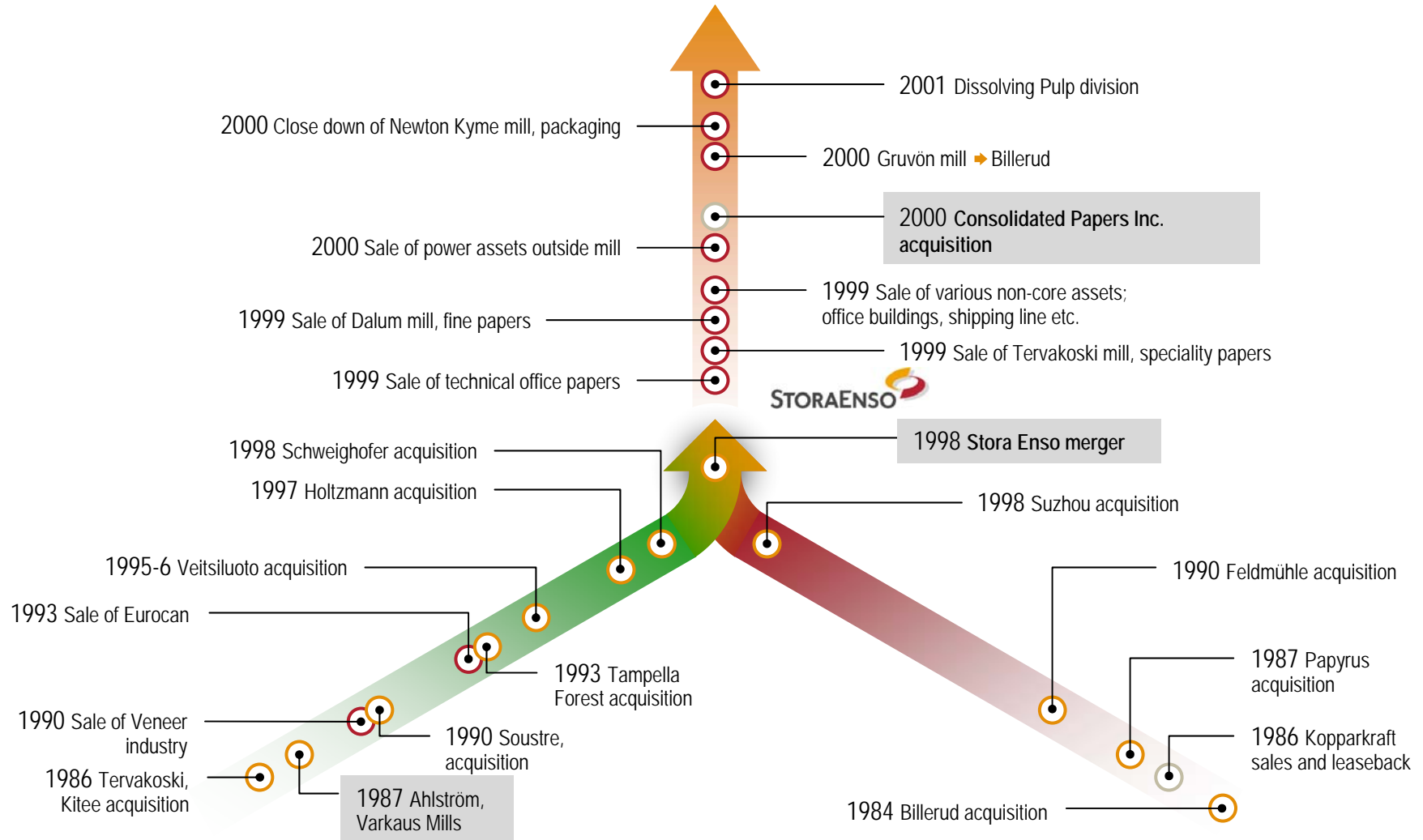


We will be the leading
forest products company
in the world.

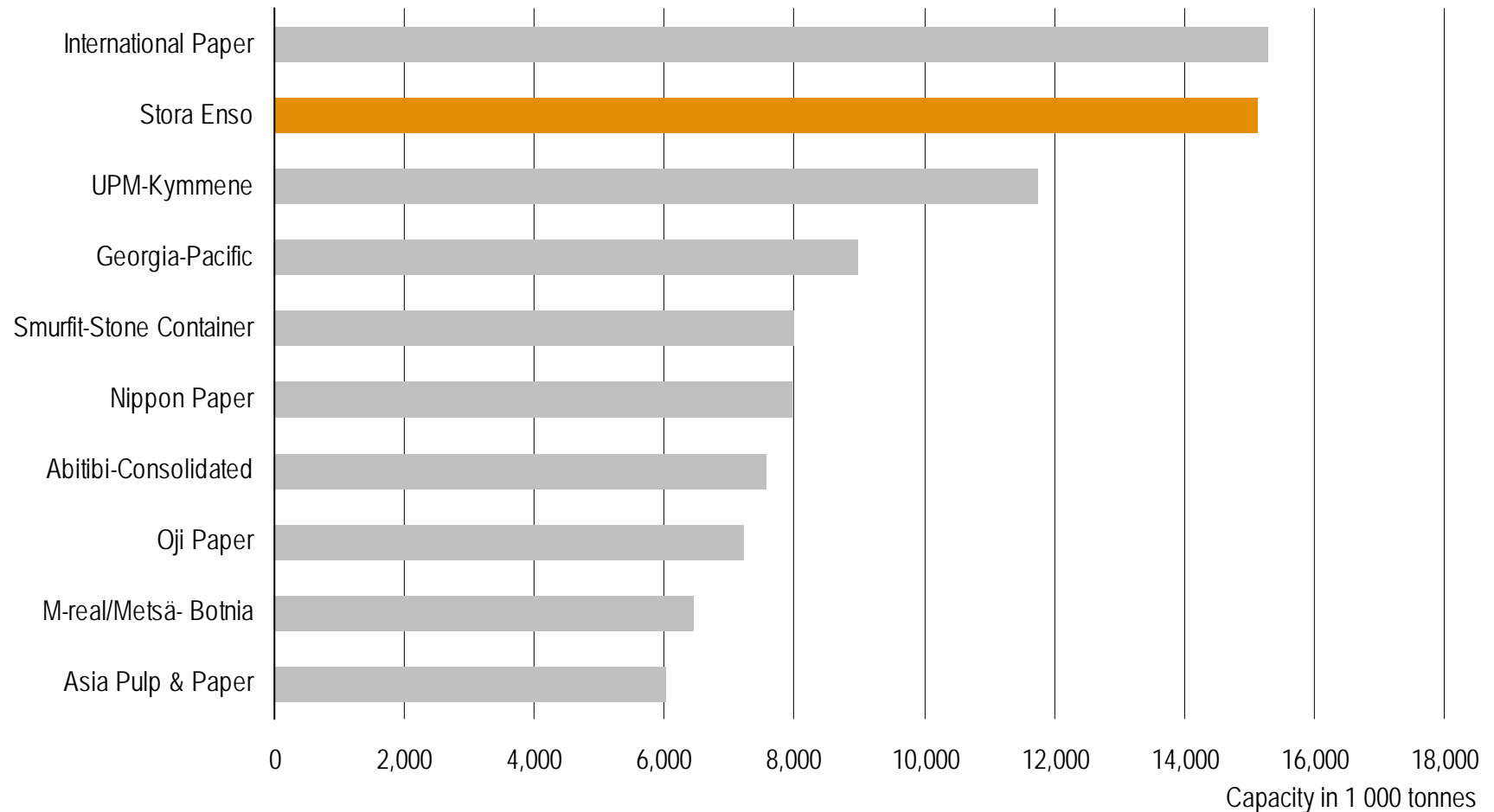
To Be The Leader Means:

- We take the lead in developing the industry
- Customers choose us for the value we create for them
- We attract investors for the value we create
- Our employees are proud to work with us
- We are an attractive partner for our suppliers

Major Structural Changes



Leading Producers Paper and Board, I/2002



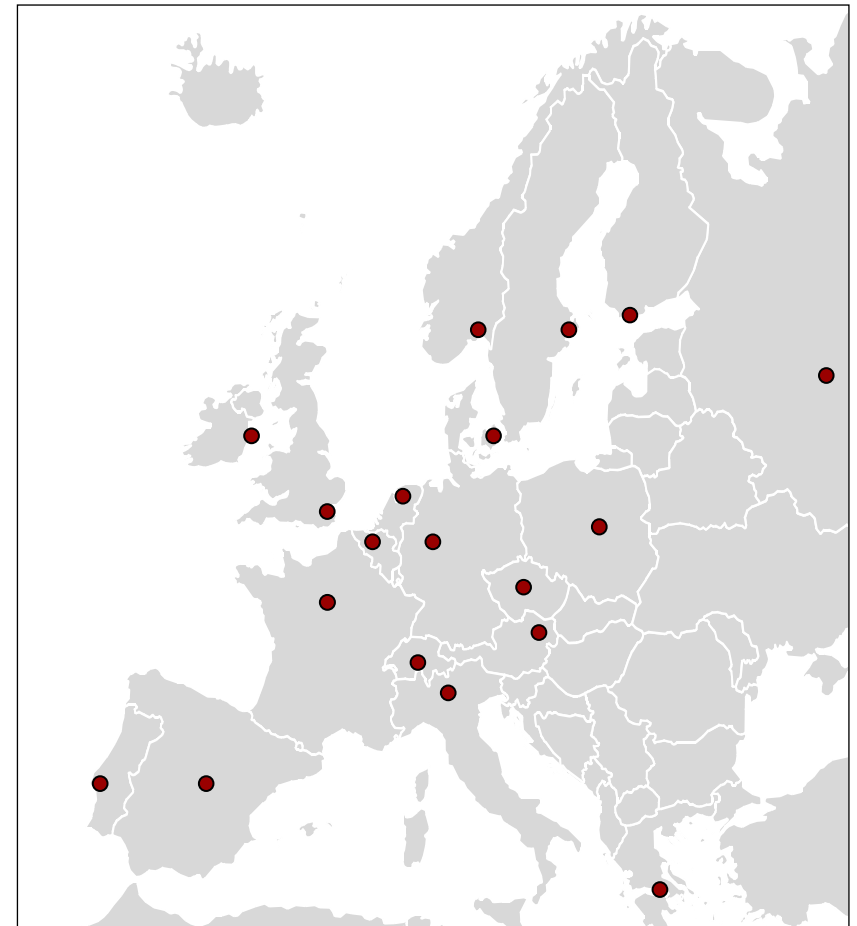
Source: Jaakko Pöyry Consulting

Worldwide Production



Worldwide Sales

- Global network
- 1 150 employees
- 12.3 million tonnes p&b, 1 m m³ timber
- handles 91% of total Group sales
- Global agent network



In addition: USA - 22 sales offices, 220 employees

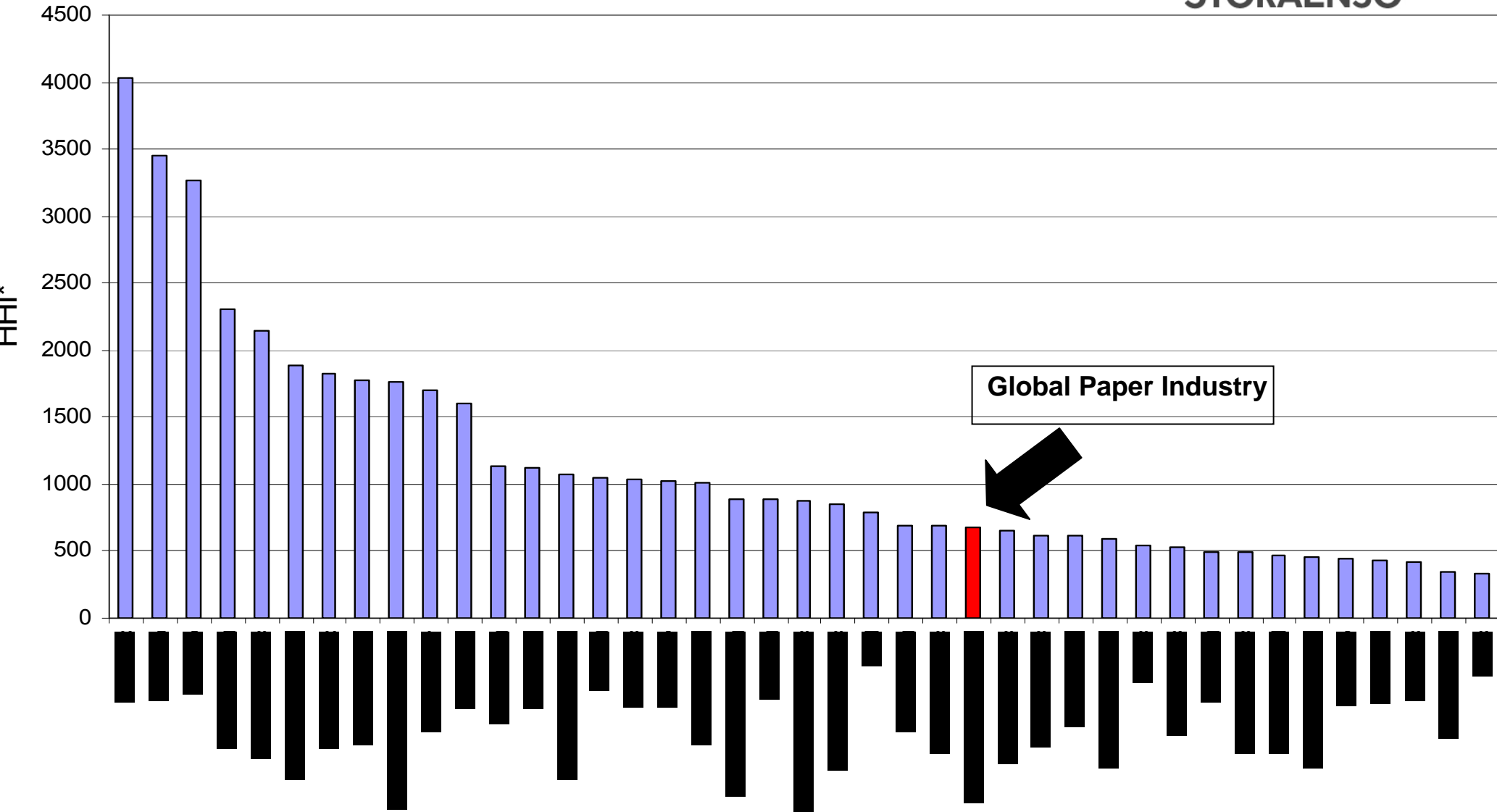
Sales by Country

- North America 20%
- Germany 14%
- United Kingdom 10%
- Sweden 8%
- France 7%
- Asia/Pacific 7%
- Benelux Countries 6%
- Finland 6%
- Italy 3%
- Spain 3%
- Other Countries 16%

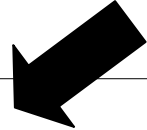
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Consolidation & the Paper Industry

Level of global industrial concentration in certain sectors in 2002



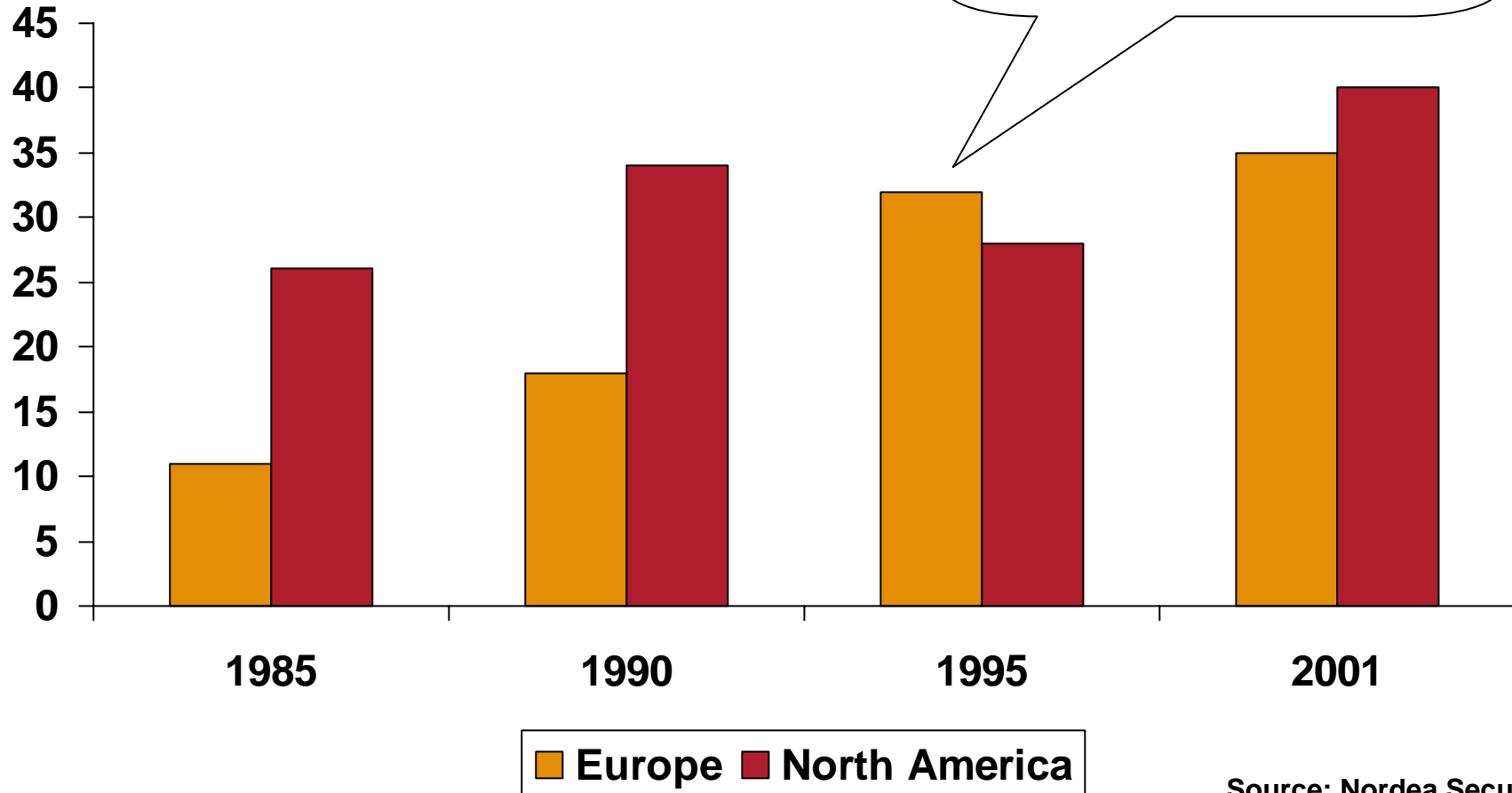
Global Paper Industry



* Herfindahl-Hirschman index is perhaps the most widely accepted measure of concentration.
 12 It is defined as the sum of squared market shares of all companies in the sector.

Industry Consolidation in North America and Europe

Market share of the top 5 paper and board producers – %



Consolidation/Globalization Drivers

Industry level drivers

- Balance supply and demand
- **Less volatile pricing**

Company level drivers

- Consolidation/globalization of customer base
- Capital intensity/scale of operations
- Operational efficiency
 - Synergies
 - Economies of scale
- **Improved valuation/shareholder value**

- **Need for global strategy but local implementation**
- **Governance and management composition**
- **Cultural differences**
- **Geographical and time zone distances**

How to define a global paper company.

The following criteria could be used:

- **Core businesses in all continents**
- **Significant player in all continents**
- **Less than 50% of operations in one continent**
- **Global management**

Are there really any global paper companies?

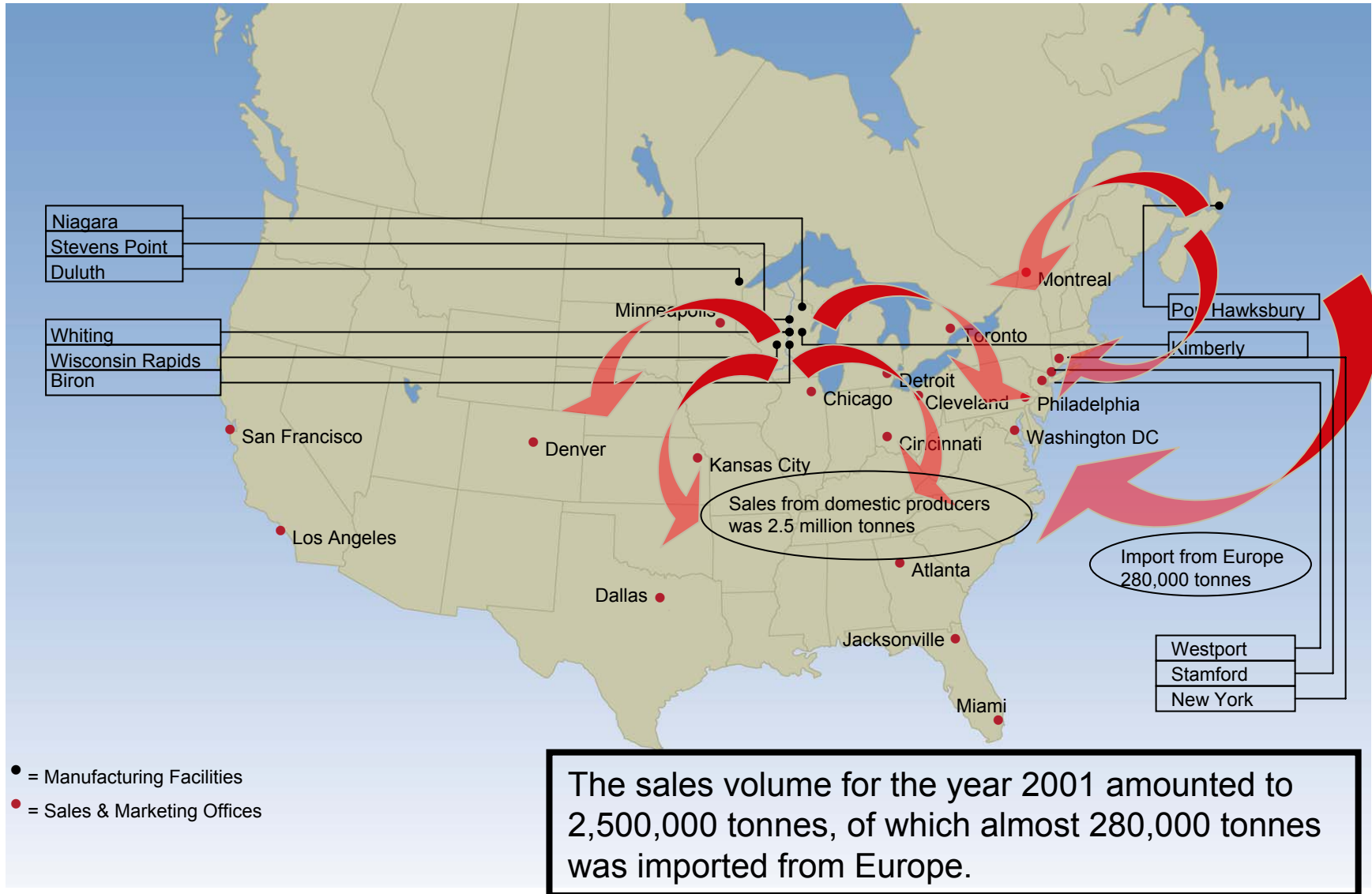
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**Managing Consolidation:
Stora Enso North America**

Our SENA Vision...

*Stora Enso will be the leading
paper company in selected
product areas in North America*

A Strong Platform for Further Growth



North American Integration

- Stora Enso governance model established including global coordination
- New management structure and philosophy established
- Strategic and operational plans developed and implemented

Profit Enhancement Plan

Impact

- Improves significantly Stora Enso North America's competitive position and profitability
- No material effect on the division's production capacity

Capital expenditure ¹⁾	€ 266 million (\$ 250 million)
Improvement of EBITDA ²⁾	€ 85 million (\$ 80 million)

1) to be spread over the forthcoming 36 months

2) full effect from 2005 onwards

Strategy Going Forward

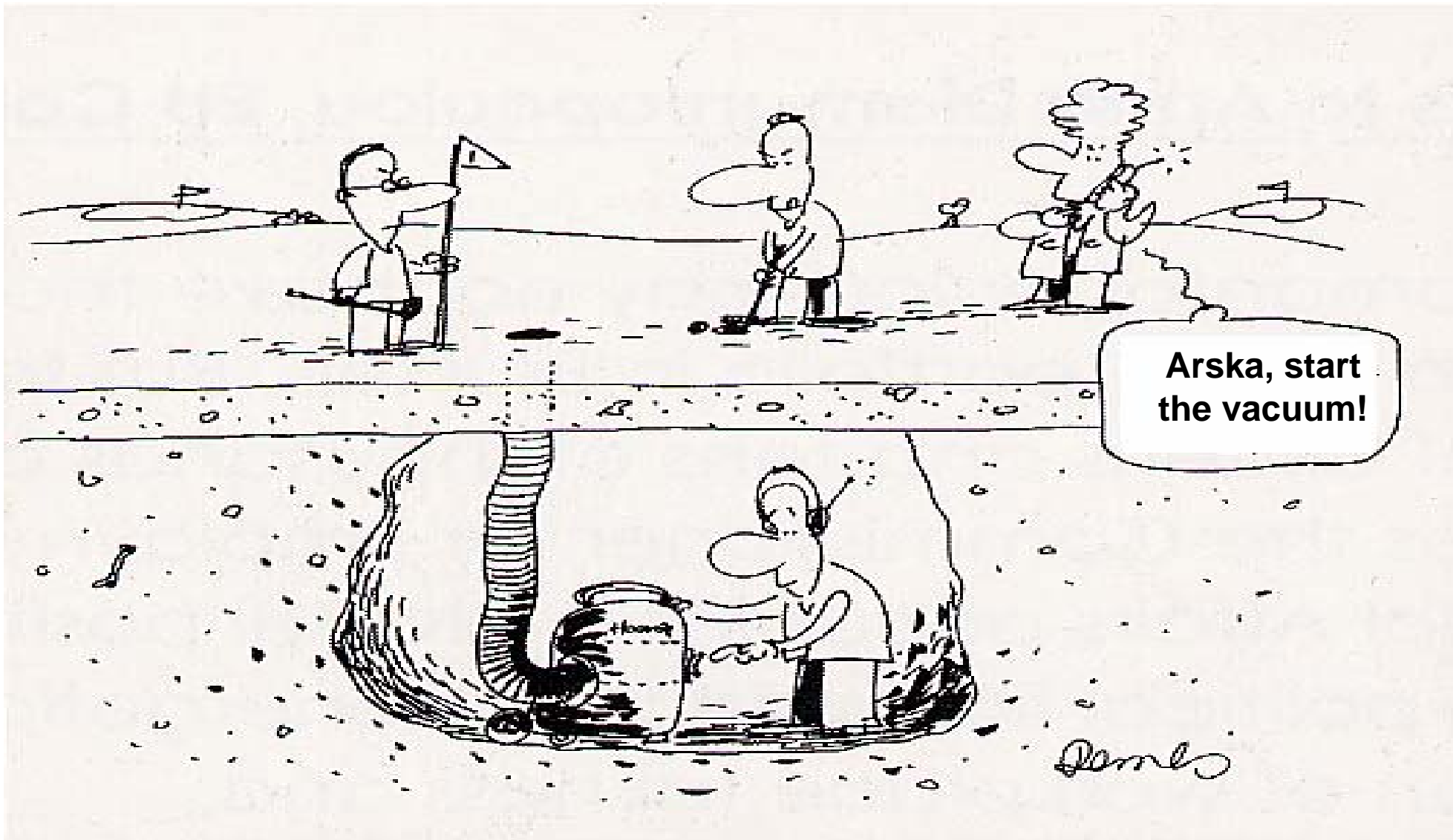
- Stora Enso is determined to remain a major player in the world's biggest paper market
- The search continues for complementary acquisitions/mergers in core product areas, based on SENA platform
- Potential acquisitions must meet with the Group's ROCE target, be EPS accretive (after synergies) and enhance average asset quality

In Summary...

- Stakeholder value drives consolidation
- The paper industry is ripe for consolidation
- Consolidation is filled with both opportunities and challenges
- Stora Enso will be a leader in the global paper industry



Golf – The American Way



Golf, the Finnish Way

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Questions & Discussion
