

Strategy in action in 2002

Access to new fibre sources

Practical steps taken by the Group in 2002 to implement its fibre strategy through access to wood supplies in the Baltic States and Russia included the acquisition of Sylvester's sawmilling and wood procurement operations in Estonia and sawmill construction in Russia.

Another good example of the way in which Stora Enso is implementing its fibre strategy is the Veracel joint venture plan in Brazil intended to provide low-cost, high quality eucalyptus fibre ideally suited for fine paper production.

Responsible asset restructuring

In 2002 Stora Enso launched a comprehensive Asset Restructuring Programme to improve customer service by providing cost-competitive, high-quality forest products, with good logistic connections serving customers in the best possible way.

The aim of this programme is to achieve top-quartile asset quality. At the same time Stora Enso recognises the importance of supply discipline. The long-term programme includes asset closures and divestments, as well as machine modernisations and new machines.

Stora Enso is committed to implementing the Asset Restructuring Programme in a responsible way so that capital expenditure stays at or below the level of depreciation over the cycle.

Divestment of non-core assets

Stora Enso has taken the strategic decision to release capital from non-core activities to finance growth of core businesses. Divestment of the Mölndal mill and Finnish and North American forestlands are good examples of the implementation of this strategy during 2002.

By divesting non-core assets Stora Enso is creating a stronger platform for the further development of its core businesses – graphic and office papers, newsprint, packaging boards and wood products.

Sales, marketing and R&D harnessed to improve customer service

During 2002 Stora Enso conducted a customer satisfaction survey that prompted a further improvement in customer focus in the form of a comprehensive customer relationship management project. The project, which began with three paper divisions and already involves more than 300 people, will continue throughout 2003. The purpose of the project is to create and implement a customer relationship management model with defined working principles.

The project targets are to improve profitability, reduce volume volatility, improve supply chain operations, shift from selling products to selling solutions, optimise utilisation of the whole product mix, reduce costs and increase organic growth.

In 2002 Stora Enso spent EUR 91.6 million on research and development, which was 0.7% of net sales. The most important product area for research and development is Consumer Boards, where it supports innovation-based growth strategy. The new InnoCentre, a EUR 4 million investment in industrial-scale converting machinery for raw material development and concept innovation, will be an important tool in developing new converting and packaging technologies and business models. A new concept has already been launched for packaging CDs and DVDs.

Another focus area is product development for digital and other document printing. The product portfolio for different printing technologies has been further developed and complemented. Recent new products are Stora Enso Matt, New StellaPress and CosmoPrint. The main emphasis in product improvement of printing grades has been on brightness, opacity and surface smoothness.

Quality improvement constantly in focus

Total Quality Management was implemented in nearly all Stora Enso units in 2002 through the Excellence 2005

process. Units throughout the Group, from mills and sales companies to service units and corporate staff functions, are systematically assessed to identify their strengths and areas for improvement, leading to enhanced operations.

Excellence 2005 aligns management practices throughout the Group and creates common understanding. It is a comprehensive approach to business development and continuous improvement through utilisation of Performance Excellence models, best practices sharing, productivity programmes and other quality tools, together with customer satisfaction and other surveys.

North America Profit Enhancement Plan launched

A Profit Enhancement Plan has been launched in Stora Enso's North American operations to improve the division's results and competitiveness. North America has been suffering from poor market conditions since the end of 2000. To reflect the current market value of the North American assets acquired that year, management decided to take a one-time impairment charge of EUR 1 167 million (USD 1 081 million), which was booked in the third quarter of 2002.

The aims of the Profit Enhancement Plan are to focus increasingly on core assets, to improve competitiveness in coated groundwood and fine papers and to secure competitive pulp for North American operations. The organisation has been streamlined to match the requirements and targets of the North American division. Since the North American acquisition, the workforce has been reduced from 7 294 to 6 156 and will be further reduced by approximately five hundred.

In 2002 North American operations achieved synergies of USD 91 million. The initial synergy target for the year, USD 110 million, was not met because the capacity utilisation rate was lower during the first half of the year and prices were lower than when the target was set in 2000.