

# Improving assets and achieving profitability

Stora Enso spent USD 204 million during 2004 to secure the long-term viability of its North American mills and significantly reduce costs. The aim of the Profit Enhancement Programme is to cut costs, upgrade assets and enhance the product mix. When the programme is complete in mid 2005, the Group's fine paper machines will be among the best in North America. Importantly, as a measure of the programmes, profitability is already improving, as seen in the significant improvement between first half and second half 2004 profitability.

## Profit Enhancement Programme

Announced in August 2002, two years after Stora Enso acquired Consolidated Papers, the Profit Enhancement Programme aims to improve significantly Stora Enso North America's competitiveness and longer-term profitability, and position its operations for profitable growth in the USA, the world's largest paper market. Action was necessary as the division was making losses for several reasons, including downturn in the economy, increased global competition, and high energy and fixed costs.

Workforce reductions associated with these changes are difficult and not done without great concern for the well-being of those employees affected. Permanent machine shutdowns have been challenging, too, but workforce and asset restructuring combined with a total of USD 250 million of capital expenditures have infused new life and purpose into the Group's North American mills. North America continues to be an important market for Stora Enso's products.

Stora Enso is investing in the best machines and improving their capacity while closing down older smaller ones. The overall capacity will therefore remain similar following completion of the investment projects.

The machine upgrades improve cost competitiveness, but modernised working practices are also crucial to the success of the programme. Introducing more efficient working practices will ensure the Group remains an attractive and reliable supplier for customers and retains its strong position in the US market.

## Personnel reductions

The programme inevitably included significant personnel reductions as some machines that were not or would not be competitive in the long term were shut down. Some difficult decisions therefore had to be made to achieve the full potential of the assets. By 2005 the Group will be employing some 5 000

## MAIN FEATURES OF THE NEARLY COMPLETED PROFIT ENHANCEMENT PROGRAMME:

### Major equipment and infrastructure investments totalling USD 250 million

- Wisconsin Rapids Pulp Mill converted to fully bleached fine paper pulp
- Rebuild of paper machines at the Wisconsin Rapids, Kimberly and Biron mill sites
- Modifications to paper machines at Niagara and Whiting
- Expansion of the thermomechanical pulp line at Port Hawkesbury

### Permanent shutdowns of uncompetitive paper machines and pulping units

- Shutdown of PM12 at Wisconsin Rapids
- Shutdown of PM24 at Biron
- Shutdown of groundwood and high-yield pulp operation at Port Hawkesbury
- Closure of groundwood pulp mill at Kimberly

### Improved product portfolio, enhanced quality

### Workforce reductions



Wisconsin Rapids mill site.

people in North America, down from 7 300 in 2000.

The percentage reduction in the workforce in North America since 2000 is slightly over 30% for both management and hourly-paid workers. Workforce reductions have been achieved in a number of ways, including severance, retirement and attrition. Stora Enso North America has provided outplacement services to help displaced employees find new employment through a special career centre.

#### **Committed to long-term development**

The programme has made Stora Enso North America more competitive in its core product segments – coated fine paper, coated and uncoated magazine paper and speciality papers – with

improved quality, reliability and cost competitiveness.

The Profit Enhancement Programme demonstrates Stora Enso's long-term confidence in and commitment to its North American operations and customers. Stora Enso North America will have efficient machines, lower production costs and satisfying printing paper products that secure the Group's aim to be the customer's first choice.

#### **Economic upturn**

Demand for paper has improved in 2004 as the North American economies continue to strengthen. The Profit Enhancement Programme is nearing completion, so the Group is well placed to supply quality products to meet the increasing demand. ●

#### **IMPROVED RESULTS**

The target of the Profit Enhancement Programme, including the later announced fixed cost reduction plan, is to improve annual EBITDA by USD 145 million. The programme started delivering a substantial positive contribution during the second half of 2004 and is on target to achieve the expected profitability improvement.

