

JUKKA HÄRMÄLÄ LEADS STORA ENSO INTO NEW GLOBAL AGE

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FOREST PRODUCTS COMPANY HAS GROWN INTERNATIONALLY THROUGH ACQUISITIONS.

AS CEO OF STORA ENSO, JUKKA HÄRMÄLÄ HAS TAKEN a major step in guiding the company toward its vision of being “the leading forest products company in the world.” The recently announced acquisition of Consolidated Papers of Wisconsin keeps Stora Enso within the top five forest products companies in terms of revenue, and near the top in terms of global production capacity as well. Härmälä is a leader in the Finnish paper industry as a Member of the Board of the Finnish Forest Industries Federation. He also is a board member of Finnish banking and insurance institutions as well as being Vice Chairman of the Confederation of Finnish Industries and Employers.

Jukka Härmälä joined Enso in 1970 and is a paper industry veteran with a strong belief in its future. The following interview took place earlier this year before the Consolidated Papers acquisition announcement. It is clear from Härmälä’s comments that he is committed to achieving Stora Enso’s vision of being the leading global forest products company while focusing on being greatly valued by its customers, investors, suppliers, and especially its employees. We are entering a new global age for the forest products industry with many challenges. Härmälä’s responses illustrate his enthusiasm for and commitment to our industry’s future.

TAPPI JOURNAL: In your opinion, what challenges face the largest or large paper producing companies between now and the next decade?

HÄRMÄLÄ: The trend of the industry has been definitely towards consolidation. Our merger, the formation of Stora Enso, has been a major step in this direction. I would assume that in the years to come there will be a few names who are really global. It is of, course, an easy thing to say, but really hard to make happen and even harder to operate in various cultures. Whether you are

actually able to do it is, from the management point of view as well as from the financial point of view, a very big challenge. Particularly when you consider some of the trends we face. First of all, I think we have to ensure that the printed medium is going to be strong, is going to maintain its competitiveness vis-à-vis electronic or any other media. In that respect, we have both a big challenge and an opportunity.

Another element in the development, one we should pay a lot of attention to, is the whole area of e-commerce. There are a number of issues there—what type of an impact does it finally have on the industry, its trading patterns, its way of operating. This is still today, I think, pretty much an

unanswered question.

TAPPI JOURNAL: And for Stora Enso itself, as you move into the first decade of the 21st Century, what specific challenges do you face? You mentioned different currencies, operating in a number of countries and cultures. How significant are those kinds of things to your operation, to the overall profitability of the company?



HÄRMÄLÄ: We have seen how our clients have become global, publishers being a typical example. A message passed on to us as papermakers by those global customers is to satisfy their needs, wherever they are located. They pretty much prefer one-stop shopping. And

yet the other side of the coin, while they ask for a global approach, is to have a local presence.

TAPPI JOURNAL:

Strategically, where do you see Stora Enso in terms of growth potential? Given your current size, are there markets you can serve more efficiently now because of your size that a smaller company couldn't?

HÄRMÄLÄ: By far, as of today, we are a European company; Europe being our home base whether you judge it by our customers or by the geographical place where we have our paper manufacturing. Certainly, we do have some expansion possibilities within the borders of Europe, no doubt about it; however, it might be somewhat limited because of the competition.

With the growth of our company to its present size, we have definitely seen the positive side of growth in the way we are able to service the customers with a whole range of products and work on research and development efforts together with them. We are trying to build a partnership type of relationship rather than a buyer and seller relationship. As a big company, we have recently been advocating a long-term view, not only for the customer relationship as such, but also when it comes to the pricing of our goods. It goes back to what I mentioned earlier about needing to maintain the competitiveness of the printed media. Only with significant size can you hope to have a little bit of influence on the pricing, to try to avoid the extreme cyclicity of the industry that we have been so badly known for. It is not only our company that think about it; you can hear it from the main players today.

For the growth outside Europe, what we have been emphasizing, now that the merger formation of Stora Enso is basically complete, is to gain a better foothold both in North America and Southeast Asia. In both areas, we currently have operations. In North America, in east-

ern Canada, we have the Port Hawkesbury mill. In Southeast Asia, we are a minority owner of Advance Agro and we have a fine paper mill in Suzhou, China. So, the first steps have been taken, but this will not be the final answer.

TAPPI JOURNAL: Stepping back from that specifically, when you look over the paper industry in the larger view, do you believe the paper industry is financially viable the way it is currently structured, or does it need to be restructured or changed?

HÄRMÄLÄ: From the Nordic point of view, there has to be a tremendous change in the financial structure of the companies. To be realistic, we were not very strong, generally speaking, at the end of the 1980s and even the beginning of the 1990s. The significance of a strong balance sheet, of course, is something that is self-evident today. The big players all have a very strong commitment to shareholder value creation. I think that with the consolidation, the companies have also become financially stronger, so I don't see the structure as a major problem.

TAPPI JOURNAL: How do you rate the financial investor community's influence on paper companies and how they operate? Does your size give you freedom or does it give you too much exposure?

HÄRMÄLÄ: I think the financial world has given a good amount of discipline to the basic way of thinking within our industry. Something especially the Europeans have been accused of is over-investing—building up new capacity. This coin has two sides. One side is, in very general terms, the fact that the asset quality of the European companies is, I think it's fair to say, higher. On the other side, cyclicity has been created by building too much new capacity over time.

This attitude has definitely changed. I can only speak for ourselves, but we are using money for capital expenditures with a much more disciplined approach than had been the case in the past. This is good for the industry in the long run and takes away some of its extreme cyclicity. Hopefully, we are able to attract more investors, which, again, is good for the development of the industry.

TAPPI JOURNAL: When you look at Stora Enso, how do you see your relationship to your global competitors? Do you think you are more nimble, faster? Are you better structured in terms of grades?

HÄRMÄLÄ: We have been known as an aggressive company taking advantage of growth possibilities, a company



that has been keeping its financial promises. We have delivered what we have said we would. I really wish that the customer relationship being a partner approach is something our customers would say about us. This is a vital part of the job, something we should never forget.

TAPPI JOURNAL: Along this same line, you talked about both North America and Southeast Asia as possible areas of acquisition. When you look at Asia, is it a market for Stora Enso, or is it a potential competitor?

HÄRMÄLÄ: It is definitely both. It is a market; it will be a market. I am a believer of Asia in the way they are coming back on track. We already have seen the signs of change since the financial crisis of the area. The highest growth numbers are going to be seen in that part of the world. The Asian companies do have some advantages over the Europeans; that goes mainly with the short fiber grown locally. I guess we should join the club more than we have so far.

TAPPI JOURNAL: Is the mix of grades that Stora Enso produces in all of its mills one you expect to remain? Do you think it is a good one? Or do you believe it is going to have to change in the decade ahead?

HÄRMÄLÄ: Some streamlining will take place, but by and large, I think we will be in these grades in the future. We do believe more in an approach with a number of legs to stand on rather than focusing only on a limited part of this industry. So, I would assume we will have packaging, packaging of course being a very broad heading. We will definitely have fine papers and the publishing grades. Over time, the furnish out of which these papers are made will actually lose its significance.

TAPPI JOURNAL: Do you believe that companies that have their own forest assets are better positioned in the world marketplace long-term than ones that just depend on market availability of fiber?

HÄRMÄLÄ: This is a very good philosophical question. It goes hand-in-hand with some of the areas of businesses which have been deemed to be the important ones in this industry; forest, energy, and similar types of things. More and more, companies are focusing on the real core of what they are doing and relying on outsourcing of these elements. For example, Stora Enso has very recently disposed of its energy assets, even though they were historically viewed to be necessary to maintain competitiveness. The world is changing. In this case, the energy markets of Europe have been liberalized from the monopoly type of situation we were in two years ago.

I would not be surprised if similar thinking would be one day applied for the forest side.

You don't have to own all of the things yourself to operate in a competitive way. Part of the game, coming from the financial side, is whether your assets yield well enough or would you be better off by letting someone else run that show.

TAPPI JOURNAL: So you are saying that if the forest assets don't perform, as with any other financial asset, then you would look at some other way of dealing with them?

HÄRMÄLÄ: "In theory;" forest issues are more complex than my comments about energy. In many cases, even if you would be willing to dispose of your forestland, you might argue whether there are buyers around. In the Nordic hemisphere, this is the case today—there would not be buyers. So it is still pretty much of a theoretical issue rather than a choice for today.

TAPPI JOURNAL: With producers in Asia and South America able to produce bleached hardwood kraft pulp at very, very competitive prices worldwide, what is your long-term hardwood strategy or non-softwood strategy in terms of positioning yourself?

HÄRMÄLÄ: This is an issue we have been discussing a lot, even to broaden it to something you might call a "fiber strategy." How self-sufficient do you really have to be as far as pulping is concerned? I guess this is a typical issue that is also pendulumming all the time in our industry. Sometimes the view, even our internal view, could be to be at 100%, and at other times we ask how far down from the 100% could one actually go. So I am afraid there is no one correct answer to the issue.

We are not, by definition, a market pulp company, even though we operate in the pulp markets with fairly significant volumes. As far as our current thinking, becoming a market pulp company in a major way has been excluded. So these are probably some of the guidelines to the basic question, and yet I think there is no one final 100% correct answer to your question.

TAPPI JOURNAL: So in your mill in Suzhou, China, you would use market pulp there?

HÄRMÄLÄ: Yes, sure.

TAPPI JOURNAL: If you could acquire a paper or pulp producer anywhere in the world right now, would it be North America? Asia?

INDUSTRY LEADERS

HÄRMÄLÄ: Sometimes, you might have a very strong preference for something, and yet it's not available or it's not financially sound. So you should have many alternatives, various options open that would fulfill each of your strategies.

TAPPI JOURNAL: What distinguishes Stora Enso from any other paper company in the world? What makes you unique?

HÄRMÄLÄ: Even though we are highly European, I think the internal culture is international, more than what has been the case with most, if not all, of our competitors. We have roots going back to both Sweden and Finland. These countries have very, very strong paper-related and forest-related traditions. Combined with a lot of skilled employees from other parts of Europe, I think this is one of the real advantages we offer to our clients.

TAPPI JOURNAL: What do you consider your greatest achievement so far?

HÄRMÄLÄ: I think we have done a good job as far as this merger is concerned, our first real cross-border merger. There were a lot of suspicious ideas around us at the time of the announcement of the merger, until we finally got all of the relevant permissions about a year ago and then when we really started to operate as one company. All the people who work for the company can be really proud of what we have achieved so far.

TAPPI JOURNAL: What is your greatest challenge as the CEO of a global paper company?

HÄRMÄLÄ: As we have already discussed, positioning to become global includes all the aspects of numerous types of challenges, including financial, cultural, managerial, whatever. It is really a big thing. The other thing, which was mentioned earlier, is to safeguard and position fiber-based products as the products that have an everlasting life. Paper is good. It is recyclable; it is, according to today's standards, environmentally friendly. We have a lot of assets and good stories to tell, but the important thing is to see that the future of paper is long lasting.

STORA ENSO TO ACQUIRE CONSOLIDATED PAPERS

Stora Enso OYJ announced the acquisition of Consolidated Papers, Inc. on February 22, 2000. The transaction was unanimously approved by the boards of directors of both companies. The transaction is worth EUR 4.9 billion (US\$ 4.8 billion), including assumed net debt of EUR 0.9 billion (US\$ 0.9 billion). Assuming 140 million Stora Enso Series R shares are issued, Consolidated Papers shareholders would receive approximately a 15.5% economic interest and 5.0% of the vote in Stora Enso. The transaction is expected to close by August 2000.

Within Europe, Stora Enso is one of the two largest producers of lightweight coated and SC paper used in magazines, and coated fine papers used in higher quality publications, such as annual reports and marketing brochures. Consolidated Papers has similar strengths in North America in these three grades. Consolidated Papers' marketing network will provide additional distribution for approximately 900,000 metric tons of paper currently exported by Stora Enso to the United States. The combined companies will be the largest producer of paper and board by capacity world-wide, with total 1999 sales of approximately EUR 12.4 billion (US\$ 13.2 billion) and total paper capacity of approximately 15 million metric tons.

The companies anticipate annual pre-tax operating synergies of approximately US\$ 110 million. These synergies will be achieved through sales and logistics optimization, best manufacturing practices, and purchas-

ing efficiencies. Approximately US\$ 90 million of the savings are expected to be realized by the end of 2001 with the full amount achieved in 2002.

Jukka Härmälä, Chief Executive Officer of Stora Enso, stated, "This acquisition marks the first major step toward the successful execution of our North American strategy. With approximately 13 million metric tons of manufacturing capacity in Europe, and the integration of Stora and Enso behind us, the further development of our manufacturing base in North America is our highest priority. We believe that Consolidated Papers represents an ideal strategic fit for our business. We are particularly attracted by Consolidated Papers' narrow product focus, the 100-year reputation of the business and its outstanding customer relationships. The addition of its leading North American market share, excellent management team and dedicated employees provides our combined forces with a strong competitive position in the global marketplace."

George W. Mead, Chairman of Consolidated Papers, will be invited to join the Stora Enso Board of Directors. Commenting on the acquisition, Mead stated, "Consolidation in the paper industry is accelerating. Our company has been extremely successful in building an admired franchise in North America. Throughout the long history of our company, the management team and employees have consistently rewarded shareholders with some of the best financial results in the industry. We believe that the future success of the business and the ability to serve our loyal customer base will be enhanced by being a central part of the North American strategy of a global company such as Stora Enso."

TAPPI JOURNAL: What strategies can Stora Enso and the paper industry use to change the image of paper from being a commodity to being a value-added product?

HÄRMÄLÄ: The main thing is to reduce the cyclicity of the industry. The most important development has been the consolidation of companies within the industry. Fewer players should result in more rational pricing policies and a more rational approach to capital investments.

There also has been a lot of discussion about e-commerce and portals. More advanced methods for customer service will add value to our products. Stora Enso has been an innovator in this area through its e-merchant service. Papyrus, our north European merchanting division, has become a leading supplier of paper, board, and other products.

TAPPI JOURNAL: The Consolidated Papers acquisition makes Stora Enso the largest producer of coated and SC papers in North America. How do the markets and expectations for those grades differ between North America and Europe, and what new demands do you anticipate for those grades over the next few years?

HÄRMÄLÄ: Coated and SC grades are the fastest growing segment, and we expect that to continue. From that standpoint, there are no big differences between Europe and North America. From a technical standpoint, there are a few differences in brightness requirements and some other specifications.

TAPPI JOURNAL: Consolidated Papers has put a lot of emphasis on its image, through the marketing of its products, through educational program, through forestry practices, and in other ways. How important are such efforts? How might they continue as Consolidated becomes part of Stora Enso and how do they compliment or fit into Stora Enso's overall strategy?

HÄRMÄLÄ: Consolidated's fine efforts fit very well indeed with Stora Enso's overall strategy. That was one reason we were very interested in proceeding with this acquisition. Now it's up to the acquisition teams to make a study of the two companies and find the best practices to retain and integrate into our combined operations. TJ

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