

Press release



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STORA and Enso, in a merger of equals, form world's largest paper and packaging board company

Helsinki and Stockholm, June 2, 1998. The boards of Enso and STORA have agreed to combine the two companies to create the world's largest paper and packaging board producer, to be known as **STORA ENSO**. The merger has the full and active support of the principal owners, the Finnish state and Investor. This Nordic combination creates a global company with significant cost synergies and a strong base for strategic growth.

The combined group, with 1997 sales of close to SEK¹ 90 billion / FIM 60 billion and some 40,000 employees, will have total production capacity of over 13 million tons.

STORA ENSO will be a strong player in its three key areas of focus: publication papers, fine papers and packaging board. Other important areas include sawn goods, as well as significant forest and power generation holdings.

"The merger is based on the excellent strategic fit between these two strong companies, creating a global player in an increasingly competitive industry," says **Claes Dahlbäck**, chairman of the board of STORA. "The new group will yield significant benefits to shareholders."

In addition to its overall scale, wider production mix and leading position in Europe, supported by stronger R&D, **STORA ENSO** will have an expanded global presence in North and South America and Asia, providing a solid base for further strategic growth.

"The merged group will have far greater resources to more efficiently serve global and local customers," says **Jukka Härmälä**, president and chief executive officer of Enso. "This Nordic combination will be a major competitive force in the international forest products industry, creating added value to customers."

¹ USD 12 bn, ECU 10 bn

The merger will generate significant efficiency gains. In total, combined yearly synergies are estimated at SEK² 1.9 billion / FIM 1.3 billion (approximately 2% of combined sales) to be realized over 3-4 years, with limited effect in 1999, and full effect by 2002. Key synergies include streamlining production flows and specialization of mills, joint purchasing, coordination of transport and logistics, improved control of combined capital expenditures, and transfer of knowledge and competence. Initially, the new group anticipates a few hundred job reductions from duplications in sales and administration, primarily through natural attrition, but the company expects that future global growth will be good for employment opportunities.

“By extending ongoing cost and capital efficiency programs, **STORA ENSO** will become an industry leader in terms of profitability and productivity, with strong potential for profitable growth,” says **Björn Hägglund**, president and chief executive officer of STORA.

Claes Dahlbäck is designated as chairman of **STORA ENSO**, **Jukka Härmälä** as chief executive officer and **Björn Hägglund** as deputy chief executive officer.

² USD 0.24 bn, ECU 0.22 bn

Additional STORA ENSO merger information

Terms and Conditions

The transaction is designed as a merger of equals, accounted for as a pooling of interest, and is based on current market valuations of STORA and Enso. The merger will be implemented by a public offer from Enso for all outstanding shares in STORA against new shares issued by Enso. As a share for share exchange, the transaction is expected to be tax free for Swedish shareholders.

Pursuant to the combination agreement reached between the parties, STORA shareholders will be offered to exchange their shares in STORA for shares in Enso to be renamed as **STORA ENSO**. STORA shareholders will receive approximately 0.51 **STORA ENSO** A-shares and 0.94 **STORA ENSO** R-shares for each STORA A-share, and approximately 1.45 **STORA ENSO** R-shares for each STORA B-share. New shares will be entitled to dividend for the year 1998. Each A-share has 1 vote and every 10 R-shares have 1 vote.

The merger is subject to the following:

- (i) that Enso's shareholders resolve at an extra-ordinary general meeting to amend Enso's Articles of Association and issue new shares as consideration for the shares in STORA;
- (ii) that STORA's shareholders accept the offer to such an extent so that **STORA ENSO** will become the owner of shares representing more than 90% of the shares and the votes in STORA. (STORA and Enso jointly reserve, however, the right to complete the offer also at a lower level of acceptance);
- (iii) that necessary clearances are obtained from relevant competition authorities;
- (iv) that the Parliament of the Republic of Finland abolish the requirement that at least one-third of the votes in Enso remain held by the Finnish State;
- (v) that there are no circumstances which, according to STORA's and Enso's joint judgement prevent or make substantially more difficult the implementation of the merger.

Further it is agreed to propose certain amendments to the Articles of Association of Enso, such as abolishing the Enso Supervisory Board, shortening the term of office of the members of the Board of Directors from 3 years to 1 year, and abolishing the obligation of the Board of Directors in certain circumstances to convert A-shares to R-shares.

STORA ENSO will be listed on the Helsinki Stock Exchange and seek a listing on the Stockholm Stock Exchange as soon as possible.

Ownership and Governance

Following the merger, STORA's current shareholders will own 60% of the capital and 55% of the votes. Principal owners of **STORA ENSO** will be the Finnish state with approximately 18% of the capital and 21% of the votes, and Investor AB of Sweden with 10% of the capital and 11% of the votes.

The new entity will be governed by a Board of Directors consisting of 10 members.

STORA ENSO will have its legal domicile in Finland with executive offices in Helsinki and Stockholm. The head office of the Swedish operations of Stora Kopparbergs Bergslags AB will remain in Falun, Sweden.

The company will adopt an international corporate governance policy.

Key Financial Information³

STORA ENSO pro forma combined sales for 1997 were SEK⁴ 87.6 billion / FIM 59.4 billion, combined EBITDA totaled SEK⁵ 15.9 / FIM 10.8 billion, and on June 1, 1998, the combined equity market capitalization of the two entities was SEK⁶ 67.7 billion / FIM 46.8 billion, with about 40,000 employees in some 40 countries.

The new company will have 94 paper and board machines with a total capacity of 13.1 million tons. **STORA ENSO** will have combined production of sawn goods of 2.9 million cubic meters per annum, will own 2.9 million hectares of forest, and will have significant electricity production capacity.

The combination will be accounted for as a pooling of interest, and combined financials will be reported according to International Accounting Standards.

Time-table

Key events in the implementation of the transaction are outlined below:

<u>Activity</u>	<u>Target Date</u>
Finnish Parliament decision	June
Information sent to STORA and Enso shareholders	July 13
Enso EGM	July 23
Acceptance period for Offer (subject to extension)	July 27-August 28
STORA shareholders receive STORA ENSO shares (subject to extension)	Sept 9
Listing of STORA ENSO (subject to extension)	Sept 9

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³ Preliminary adjustment to IAS, unaudited.

⁴ USD 11.5 bn, ECU 10.2 bn

⁵ USD 2.1 bn, ECU 1.9 bn

⁶ USD 8.7 bn, ECU 7.8 bn

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