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SYNERGY BENEFITS WITHIN STORA ENSO EXCEED EXPECTATIONS

Stora Enso has specified the estimate, published in June, of expected synergy benefits of the merger, their realisation schedule and the non-recurring costs of the structural changes.

According to new calculations based on a more in-depth analyses by the divisions, the annual synergies will amount to EUR 300 million as of 2002, which exceeds the previous estimates by about 40%. The most significant advantages will be gained primarily through streamlining of production, in purchasing and logistics, marketing and administration. Compared with earlier assumptions, the synergy improvements relate primarily to the streamlining of production and logistics. The main effects are expected within the product areas of fine papers, packaging boards and pulp. In 1999, the synergy benefits will exceed EUR 50 million, in 2000 they are expected to increase to about EUR 170 million and in 2001 to about EUR 240 million.

The write-downs and provisions directly attributable to the merger total approximately 210 million, of which write-downs of fixed assets account for EUR 60 million and EUR 150 million relate to reorganisation costs, fees to the advisors and severance payments.

In addition to the write-downs and provisions attributable to the merger the company has decided to book in its financial accounts for 1998 additional provisions and write-downs amounting to EUR 245 million. A large majority of these relate to potential structural changes to be implemented in the foreseeable future. In order to cover the effects of these EUR 45 million will be booked as provisions and EUR 110 million as write-downs on machinery and equipment. The remaining EUR 90 million are extraordinary goodwill write-downs, which relate to plants with poor profitability. The value of write-downs in the company's assets will reduce planned depreciation by about EUR 10 million annually.

During 1999-2002, the estimated reduction in number of employees is about 2000. The merger effects on staffing the head offices and divisional offices as well as sales companies are expected to be limited to 400-500 people as reported earlier. The difference is due to rationalisations in other parts of the company, many of these as a consequence of benchmarking and applying best practices between the merged companies.

Summary

Provisions before tax will total approximately EUR 455 million and after tax EUR 370 million and EUR 185 million of the provisions will have a cash effect over the next two years.
As a result of the provisions, the Group's debt/equity ratio will increase to a multiple of about 1.13, compared with 1.05 as at September 30, 1998, while the Group's target is less than 1.0.
The synergy benefits will improve Stora Enso's operating profit by about EUR 300 million as of 2002.

STORA ENSO OYJ

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