



# M-real

Office Papers-  
Differentiation through  
Channel Strategy

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CMD  
May 22, 2008

# Agenda

1. Office Papers in a nutshell
2. Simplicity
3. Outlook and targets

# M-real Office Papers

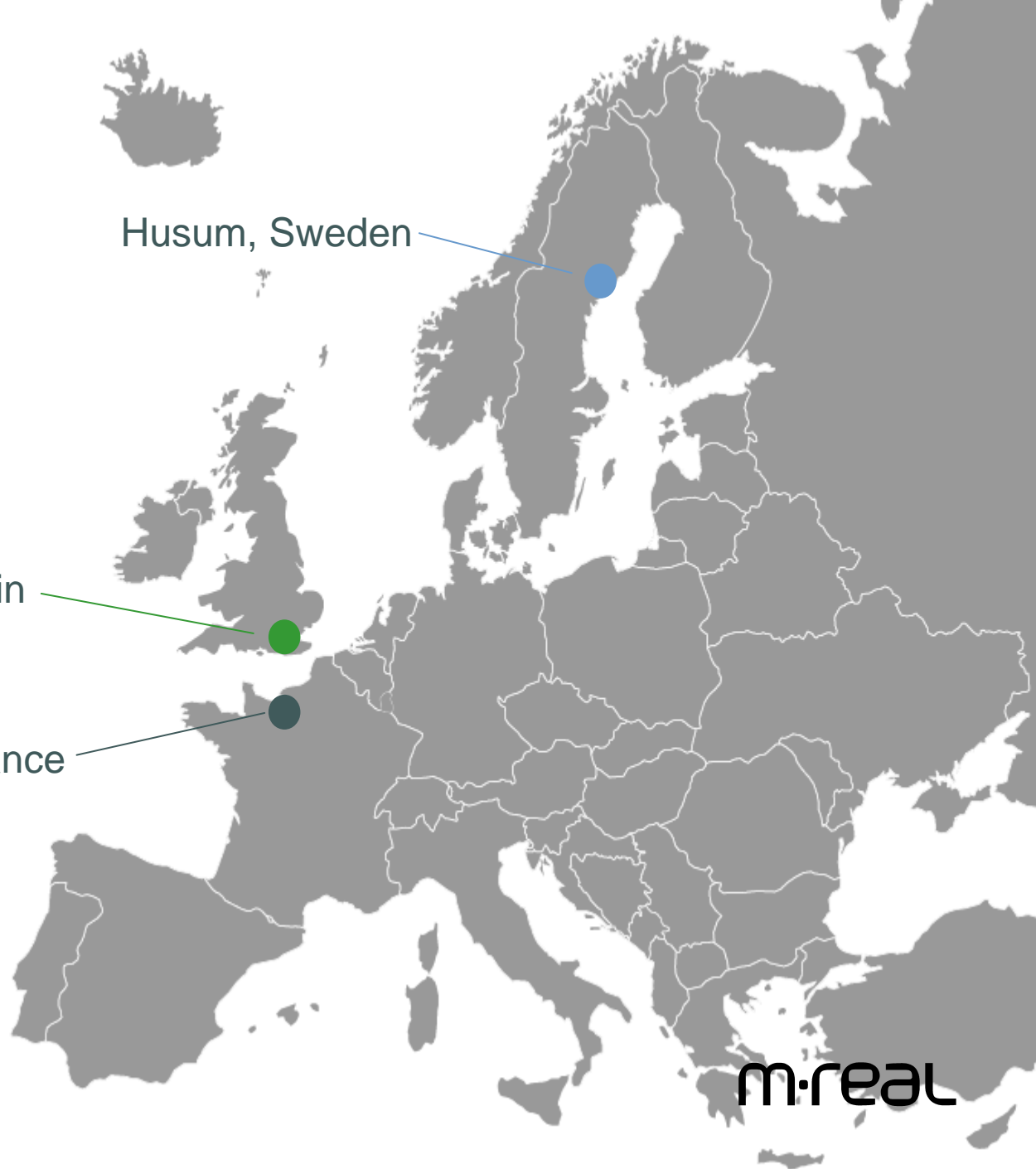


# Our Mills

Husum, Sweden

New Thames, Great Britain  
(until end 2008)

Alizay, France

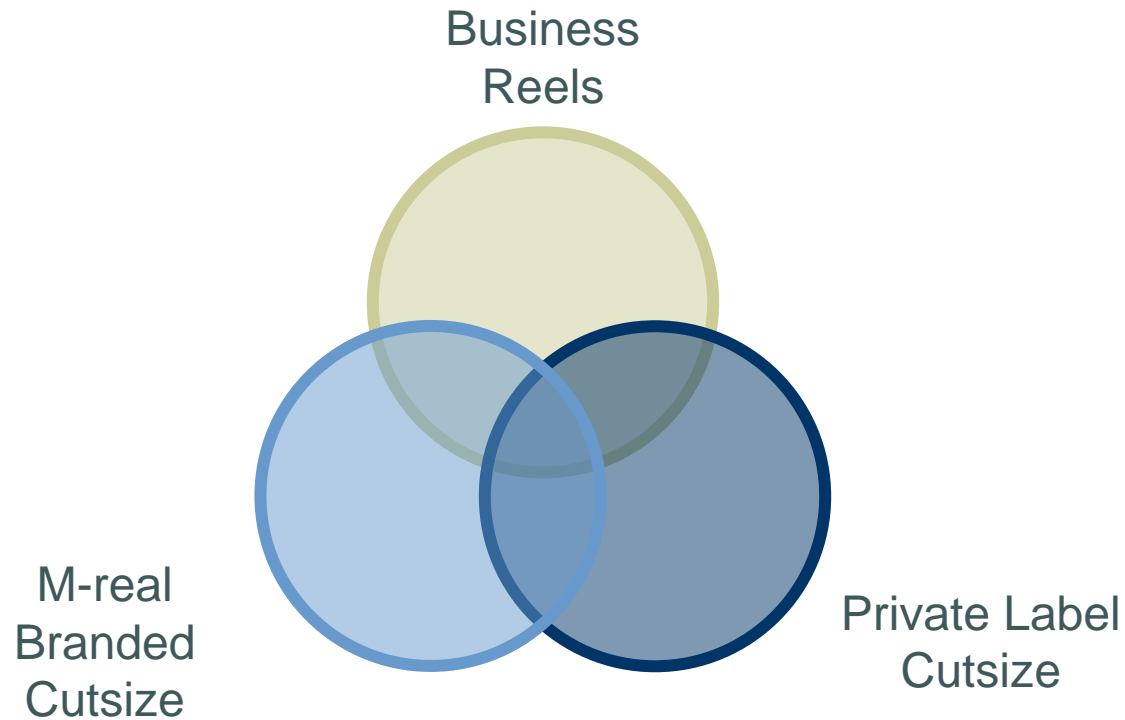


m·real

## M-real Office Papers 2007





- Sales volume 950 000 tonnes
- Sales EUR 723 million
- EBIT excl. non-recurring intems EUR 23 million
- 1,650 employees

# What Do We Sell?



→ Channel strategy has been designed to match the requirements set by this division

## Strongest Producer Brands in Europe

Brand	Customer segment	Profile	Overarching message
	Converters & printers	Professional men	Value for money, reliability
	Government & large corporations	Professional men and women	100% RCF, no compromise, whitest
	Medium & large corporations	Professional, assisting women	Professional choice, cost of ownership
	Small & mid-sized enterprises (SMEs)	Multi tasking females	Simplicity, easier, touch point experience

# Office Paper Products – Route to Market

- Cutsized papers are distributed to the end-user through various channels, which have fundamentally different business models and drivers
- Office Papers sales margin and growth is highly dependent on its capability to manage different channels
- The channel structure is changing constantly and differs between regions in Europe
- Business reels are normally distributed via converters and/or printers to the end-user. This model is less complex compared to distribution of cutsized papers

# What Do We Aim For With Our Channel Strategy?

- Serve the customer segments
    - where growth is taking place
    - where the value of the brands is highest
- Utilize the strenghts of our unique product offering in an optimal way

# Channel Definitions

## – Channel

- ▶ Route to market. From our point of view the channel primarily means type of middleman the end user buys the product from

## – OPI (=Office Products Industry)

- ▶ Contract stationers, mail order companies and office supplies stores
- ▶ Paper is just one, yet important part of OPI product range

## – Paper merchant

- ▶ Company working as a middleman between the paper producers and end-users. Sources paper from several producers
- ▶ Paper is the main product in their product portfolio

## – OEM

- ▶ Office Equipment Manufacturer. Most commonly means Xerox, Canon and Océ in Europe

An open book with marbled pages in shades of red, orange, and green, resting on a white surface. The book is surrounded by lush green ivy leaves and branches. A semi-transparent grey box is overlaid on the left side of the book, containing the word "Simplicity" in white text.

Simplicity

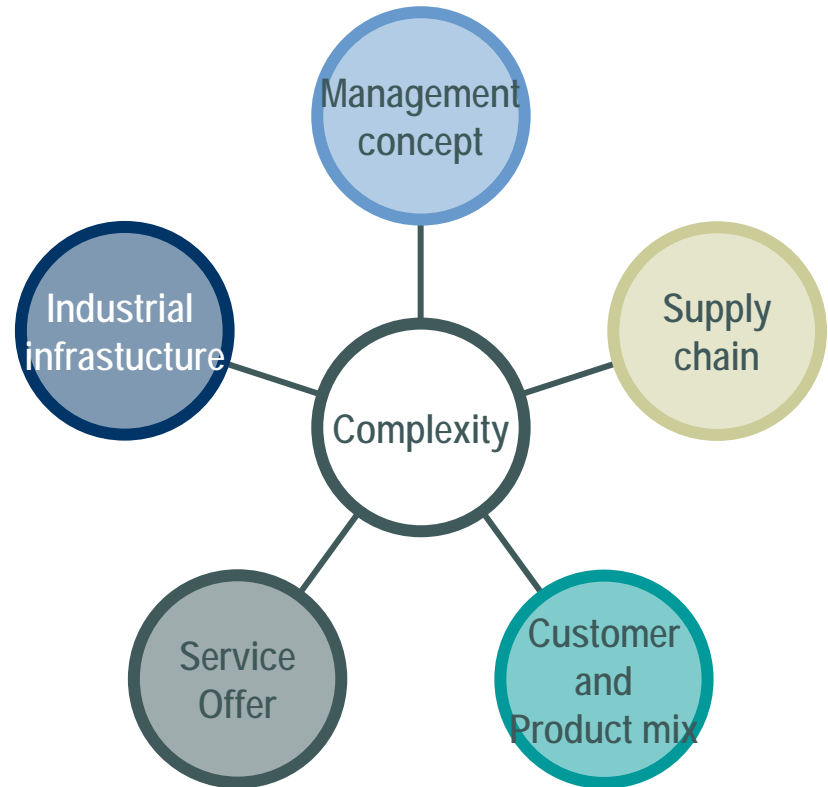
# Simplicity – Current Main Actions

- **PRODUCTION**

- Wifsta closure
- New Thames divestment

- **PRODUCTS & MARKETS**

- Focus on European market
- Customer mix optimization



# Wifsta Closure

- Closed capacity: 175 ktn/a
  - Elements having positive impact on result
    - Relatively more cutsize vs. reels
    - Relatively more high-value added grades
    - Lower average delivery cost
    - Improved supply/demand balance
  - Elements having adverse impact on result
    - Lower volume
- All in all, a highly successful project

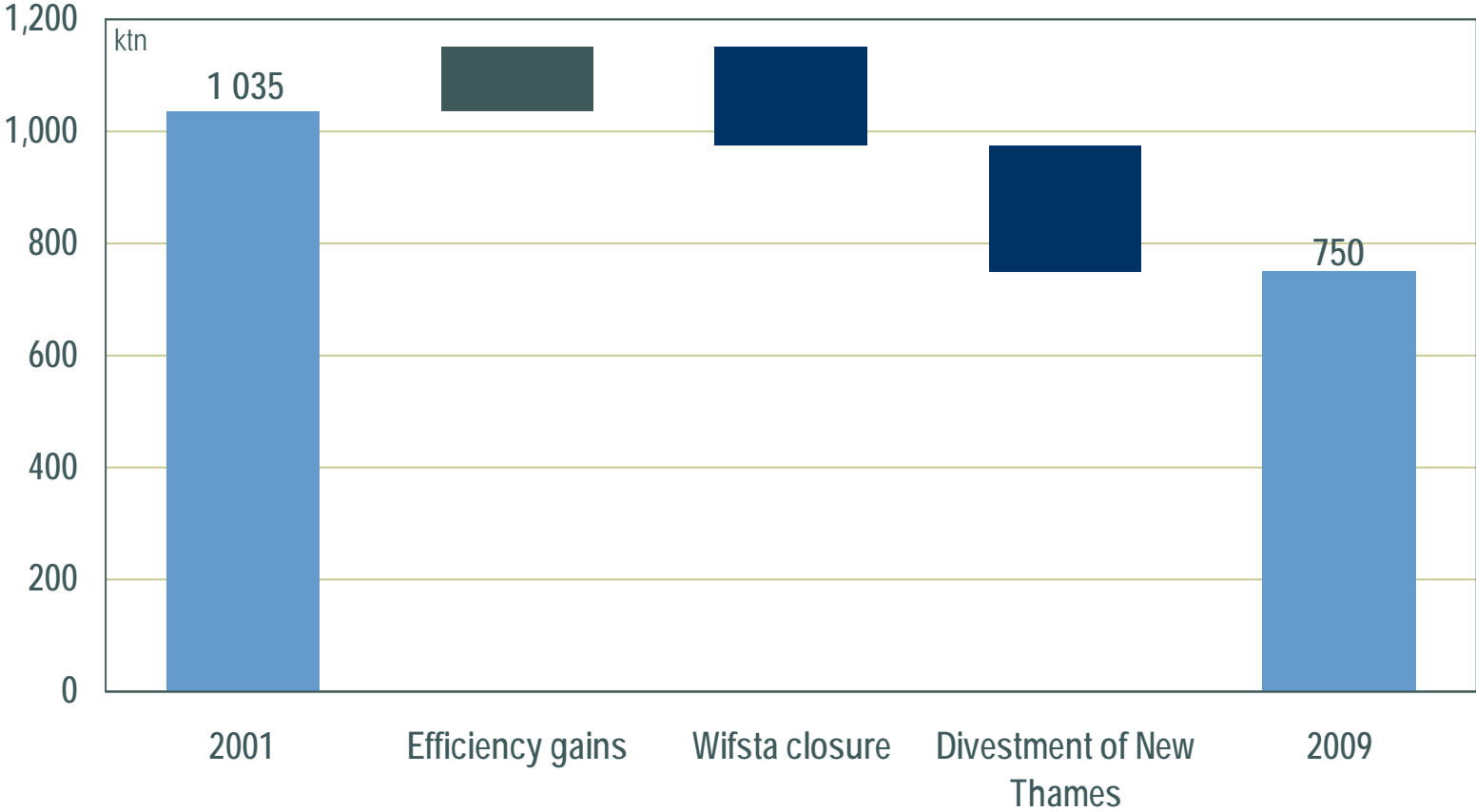


# Divestment of New Thames - Getting Paid For Closing Capacity



- Positive cash impact for M-real about 82 m€ and capital gain 24 m€, no significant uncovered pension liabilities left in the UK after the sale
- Office paper production on behalf of M-real continues towards year end
- New owner will not produce office paper, thus European market balance improves by 230 ktons/a
  - Supports positive price development
- Improves Husum and Alizay mills' performance
- Preparations for New Thames production and business transfer proceeding
  - Completed by the end of 2008

# M-real Office Papers Capacity Development

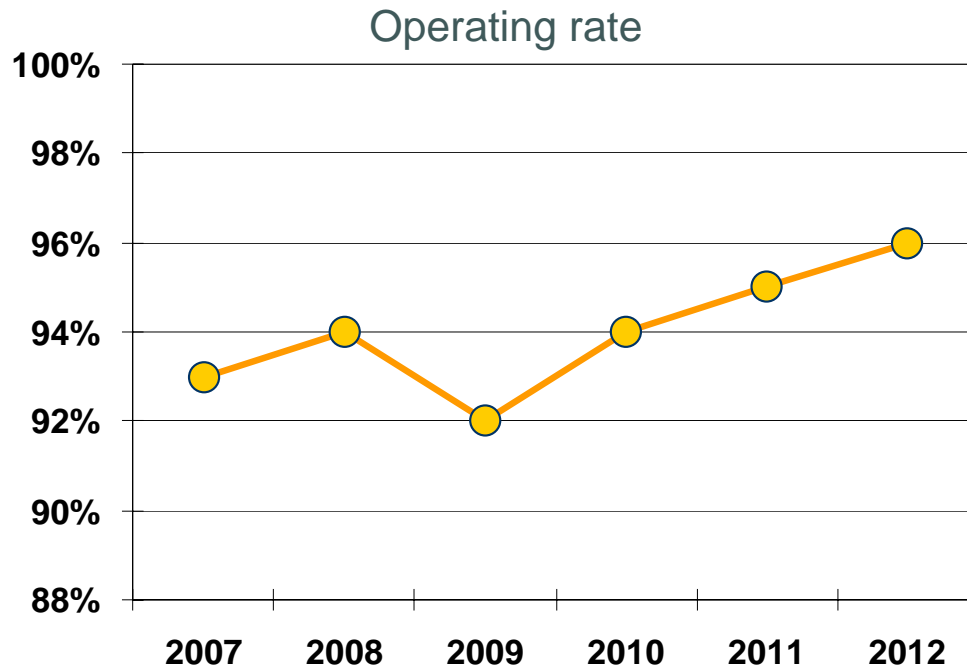


% of European WFU Capacity	2001	Efficiency gains	Wifsta closure	Divestment of New Thames	2009
	12%	+1%	-2%	-2%	8%

# Outlook and Targets



# WFU Operating Rate Forecast in Western Europe

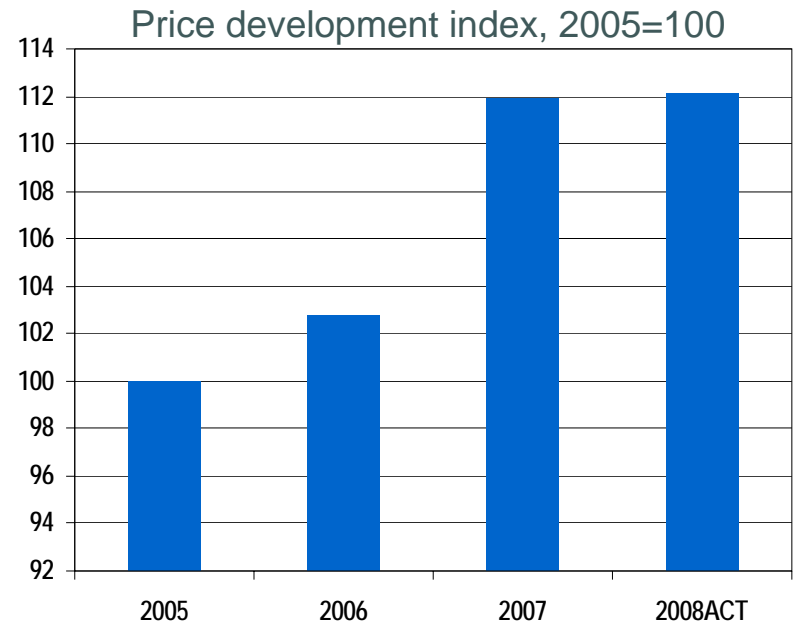


Recent/future major investments and closures:

Company	Mill	Capacity/ktn	Timing
Stora Enso	Veitsiluoto	90	2007 Q4
Stora Enso	Berghuizer	-235	2007
M-real	Wifsta	-175	2007 Q3
M-real	New Thames	-230	2009 Q1
Mondi	Szolnok	-140	2008 Q1
Portucel	Setubal	+500	2009 Q3

# Market Outlook

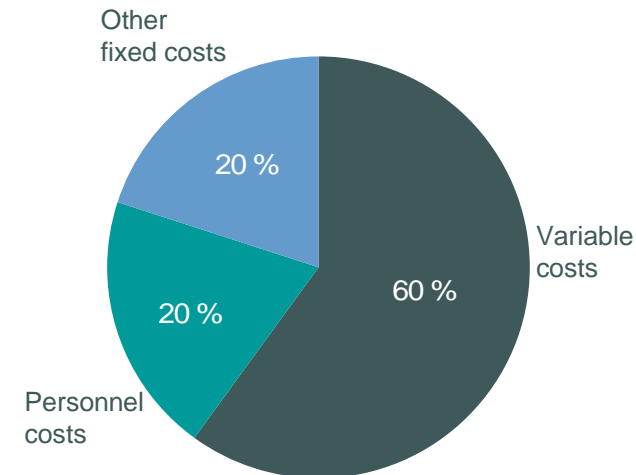
- Growth of demand has recently stagnated but capacity utilization has been relatively good, owing to recent closures
- Closures/divestments will offset the impact of new capacity entering the market
- In short term the demand will be lower for seasonal reasons
- Prices have continued to increase
  - Partly offset by currency effect



# Profit Improvement Programme 2008

- Profit improvement actions in Office Papers
  - Reorganization in Husum
  - Production efficiency programs in Husum and Alizay (energy, wood, chem.)
  - Reorganization in Sales & Marketing
- Target to realize min. €20 million by end 2010
- ONWC reduction mainly through reducing finished goods stocks
- Additional measures under planning

## Savings Targets



## Value of Profit Improvement Actions / Sales\*



\* Excludes impact of Wifsta closure and New Thames divestment

# Office Papers Targets

To become the most attractive partner  
for all channels in the office paper  
category

Continuous pursuit of  
cost efficiency remains  
necessary to guarantee  
profitability



Finalize controlled and well  
managed restructuring of  
our asset portfolio

Increase our capabilities particularly in the areas of  
distribution and category management

# Conclusions

- In the future, Office Papes BA will be
  - Focused to segments where the growth is taking place and/or our relative competitiveness is the highest
- Strategic development will focus on
  - Branded products
  - Recycled grades
- Improve Husum pulp profitability by tackling challenges in wood supply
- Profit improvement and simplicity actions continue