STORAENSO

Global Local Responsible

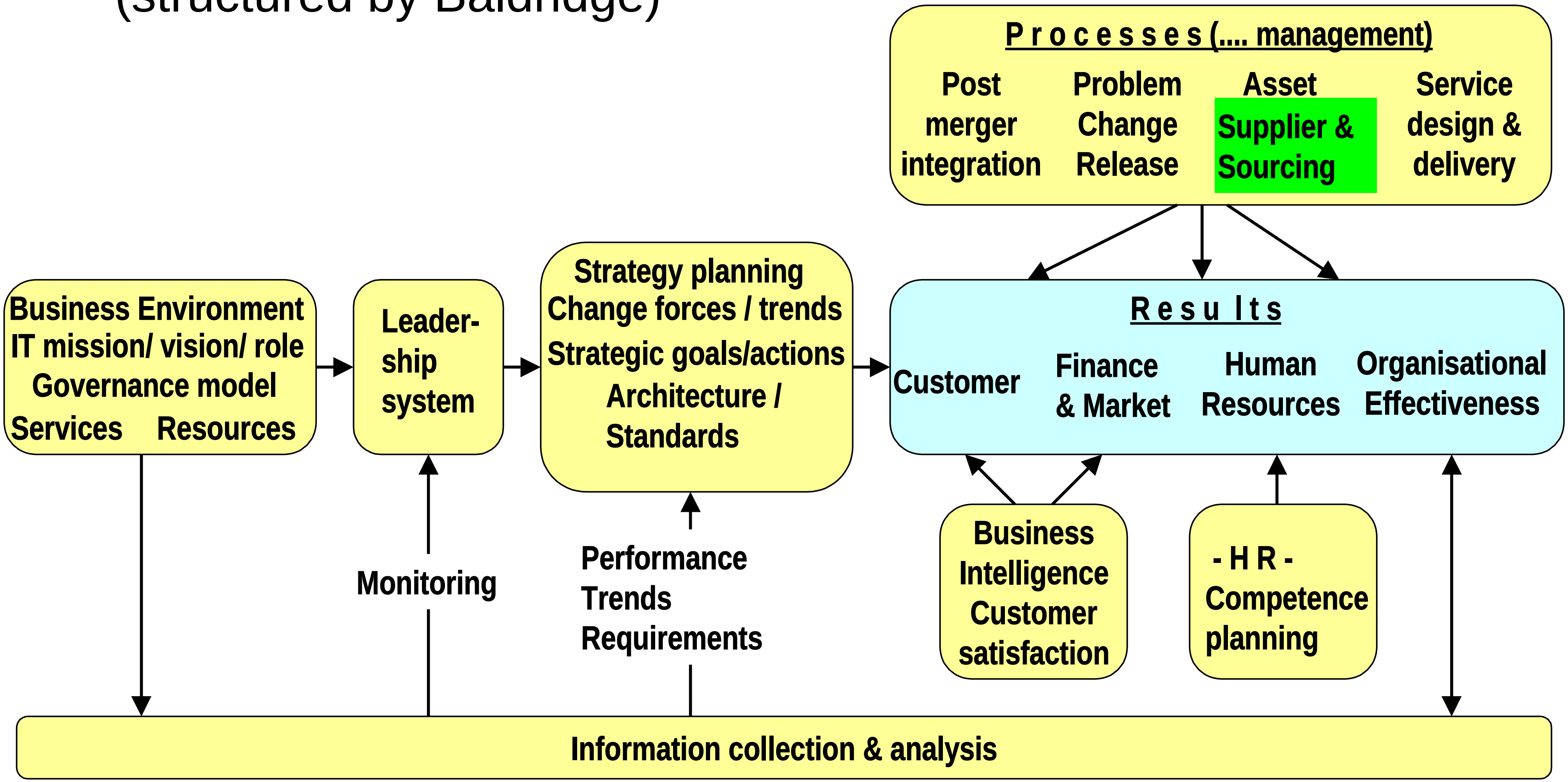
IT sourcing strategy

PIMA IT 2003 Conference
April 27-30, 2003: Vancouver, BC

Personal data (Walter Haberland)

- **Myself**
  - **56 years old**
  - **Experience – 29 years in IT, of which**
    - 8 years in a paper mill (Kabel) – Feldmühle
    - 3 years in service data center
    - 8 years various positions for Corning Inc. in Europe (2.5 years in France)
    - 2 years free-lance consultant (project management, coaching)
    - 4 years for Stora Publication Paper
    - 2 years for StoraEnso Magazine Paper division
    - SVP IT since Jan/01/2001
- **My family**
  - **Married**
  - **3-7 children (depending on counting method)**
  - **2-9 grand-children**
  - **1 cat at home, 4 cats around the house**

IT Management system
(structured by Baldridge)



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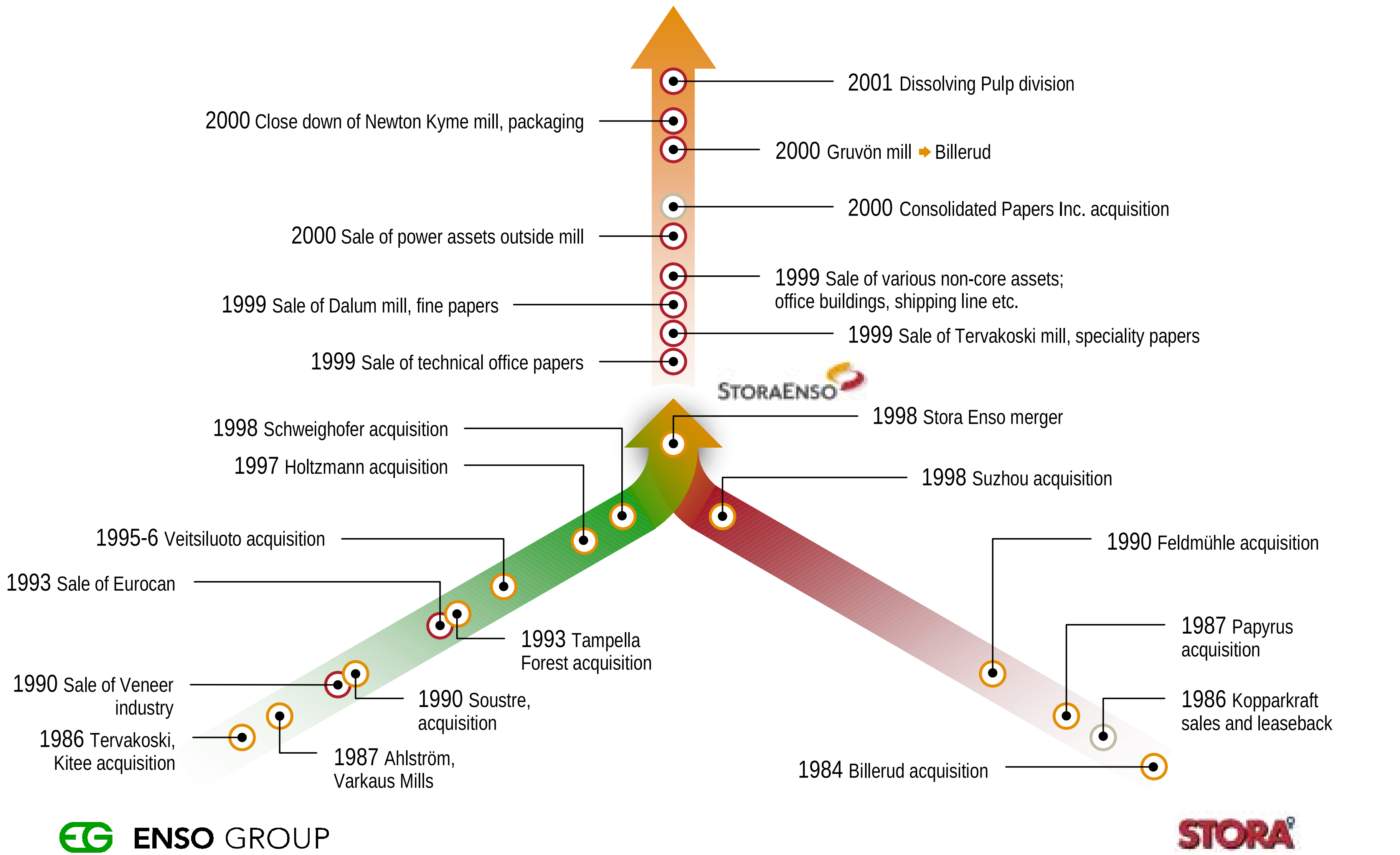
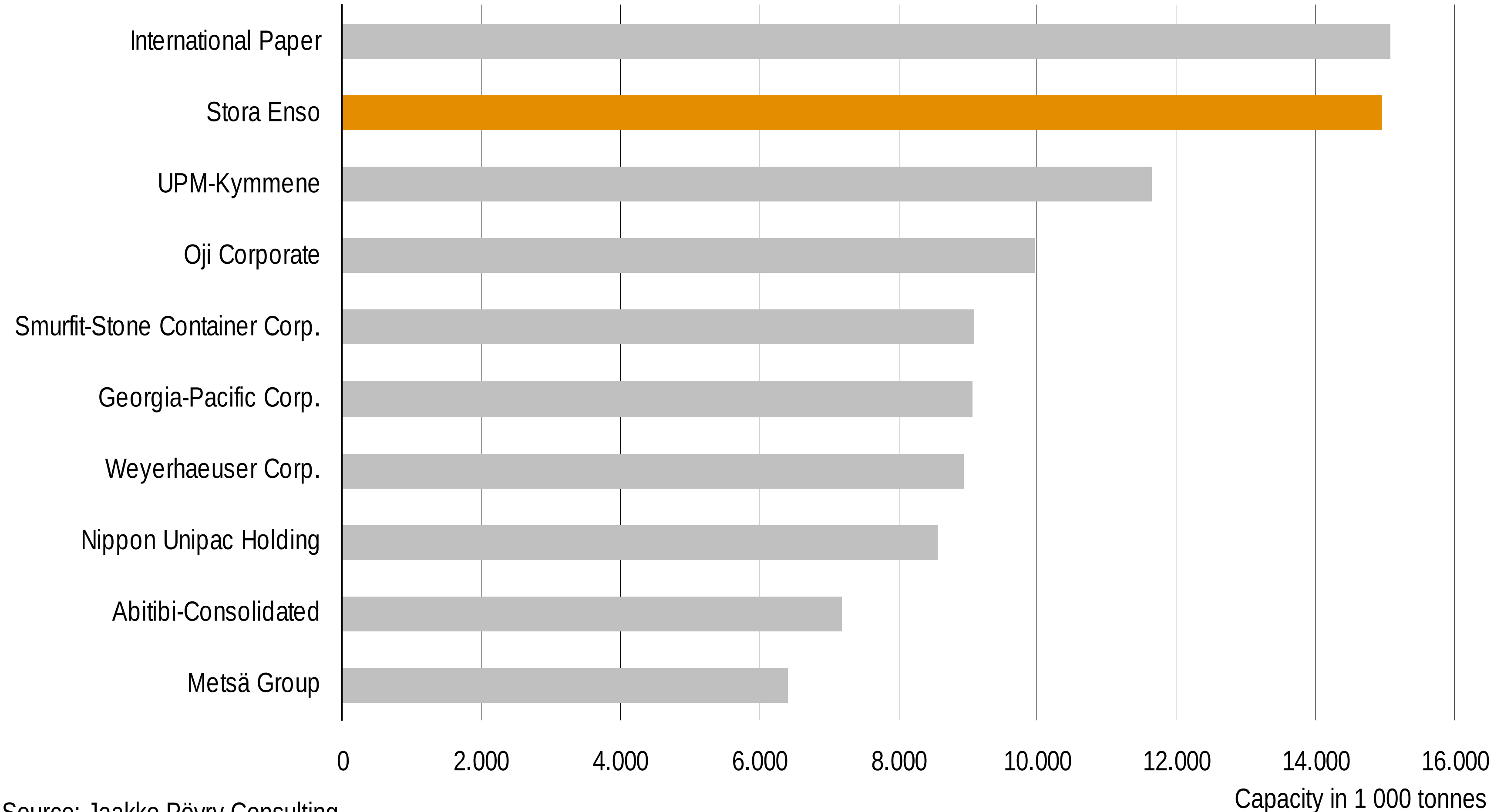
Business environment

Stora Enso key facts I/2003

Major Structural Changes



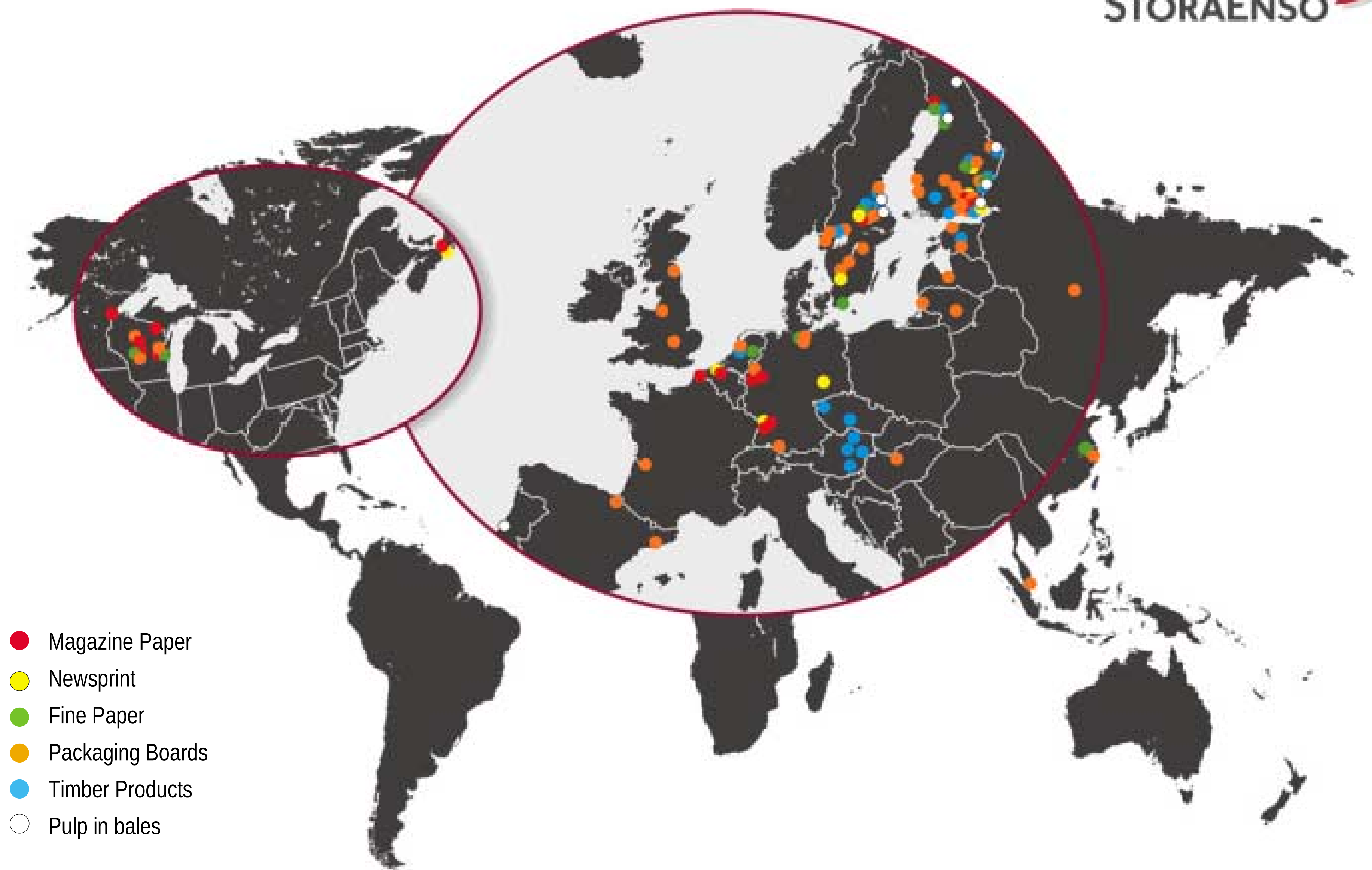
Leading Producers
Paper and Board, I/2003



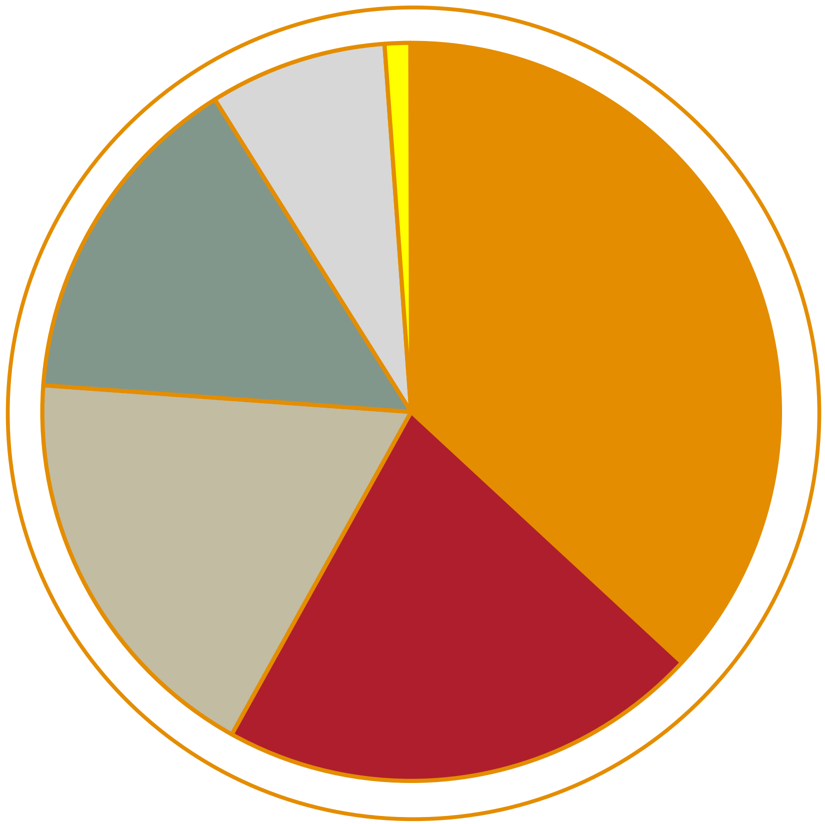
Source: Jaakko Pöyry Consulting

Stora Enso Key Facts

- A world leader
- Sales approximately EUR 12.8 billion
- Total paper and board capacity 15 million tonnes/year
- Some 42 500 employees
- Focus on core areas: Magazine Paper, Newsprint, Fine paper, Packaging Boards and Timber Products
- Strong global marketing network
- Listed on the Helsinki, Stockholm and New York Exchanges


Magazine Paper
Newsprint
Fine Paper
Packaging Boards
Timber Products
Pulp in bales

Paper and Board Capacity by Country



Finland	37%
Sweden	21%
North America	18%
Germany	15%
Other European countries	8%
Asia	1%

Capacity 15 million tonnes

Leading market positions

Stora Enso Products

	Product	Uses	Market Position	Key Markets	Market Share Europe	Market Share Global	Production Capacity
 Magazine paper	Uncoated super-calendered, uncoated machine-finished papers, light-weight coated, medium-weight coated, heavy-weight coated, machine-finished coated papers and wallpaper.	Magazines Printed advertising material Catalogues and direct marketing	World's second-largest producer, largest producer in North America, second-largest in Europe	Europe & North America	21%	17%	4.5 million tonnes
 Newsprint	Standard newsprint Newsprint specialities such as improved newsprint, directory papers and book papers.	Newspaper Newspaper supplements Advertising leaflets Telephone directories Hardback Pocket books	World's fourth-largest producer of newsprint and newsprint specialities, largest producer in Europe	Europe & North America	24%	7%	3.4 million tonnes
 Fine paper	Graphic papers (Coated fine paper) Office papers (Uncoated fine paper)	Document printing Commercial printing High-quality books	World's third-largest producer, third-largest producer in Europe World's sixth-largest producer of office papers, second-largest in Europe	Europe & North America	14% 13%	9% 4%	3.7 million tonnes

Leading market positions

Stora Enso Products

	Product	Uses	Market Position	Key Markets	Market Share		Production Capacity
					Europe	Global	
 Packaging boards	Liquid packaging boards, cupstock, cartonboards, containerboards, corrugated packaging, coreboards, cores, flexible packaging and label papers.	Packaging	Leading producer of consumer packaging boards and speciality papers	Europe, Asia, and North America	N/A	N/A	3.6 million tonnes of packaging boards and papers, 650 million m^2 of corrugated packaging and 197 000 tonnes of cores
 Timber products	Sawn timber and further-processed products	Construction Joinery Furniture industries	World's third-largest producer of sawn softwood, largest producer in Europe	Europe, Asia, North Africa, Middle East and North America	N/A	N/A	Sawn timber annual production capacity 6.0 million m^3, further-processing capacity 2.4 million m^3

Business environment
Strategic goals

The main strategic goal is to increase the value of the Company by profitable growth

- Stora Enso growth must exceed the market growth and match the growth of our best competitors. Growth will be achieved mainly through M&As and asset restructuring
- Stora Enso's ROCE target is 13 % over the cycle
- AND
- Continuing all internal efforts to increase efficiency and cost consciousness
- 2003 will be a very tough year

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Role of IT at Stora Enso

Role of IT – Support the Vision

STORAENSO

We will be the leading forest products company in the world.

- **Identify and execute synergies**
  - Excellent post-merger integration capability
  - Cost efficiency, benchmarking, vendor managment, sourcing
- **Refine and follow-up corporate standards and policies**
  - Standardisation
  - IT governance model / strategy planning
- **Attract and develop IT competences**
  - Common processes (project / change / problem management)
  - Competence development / planning
- **Assess and apply new technologies to improve business**
  - Markets, trends

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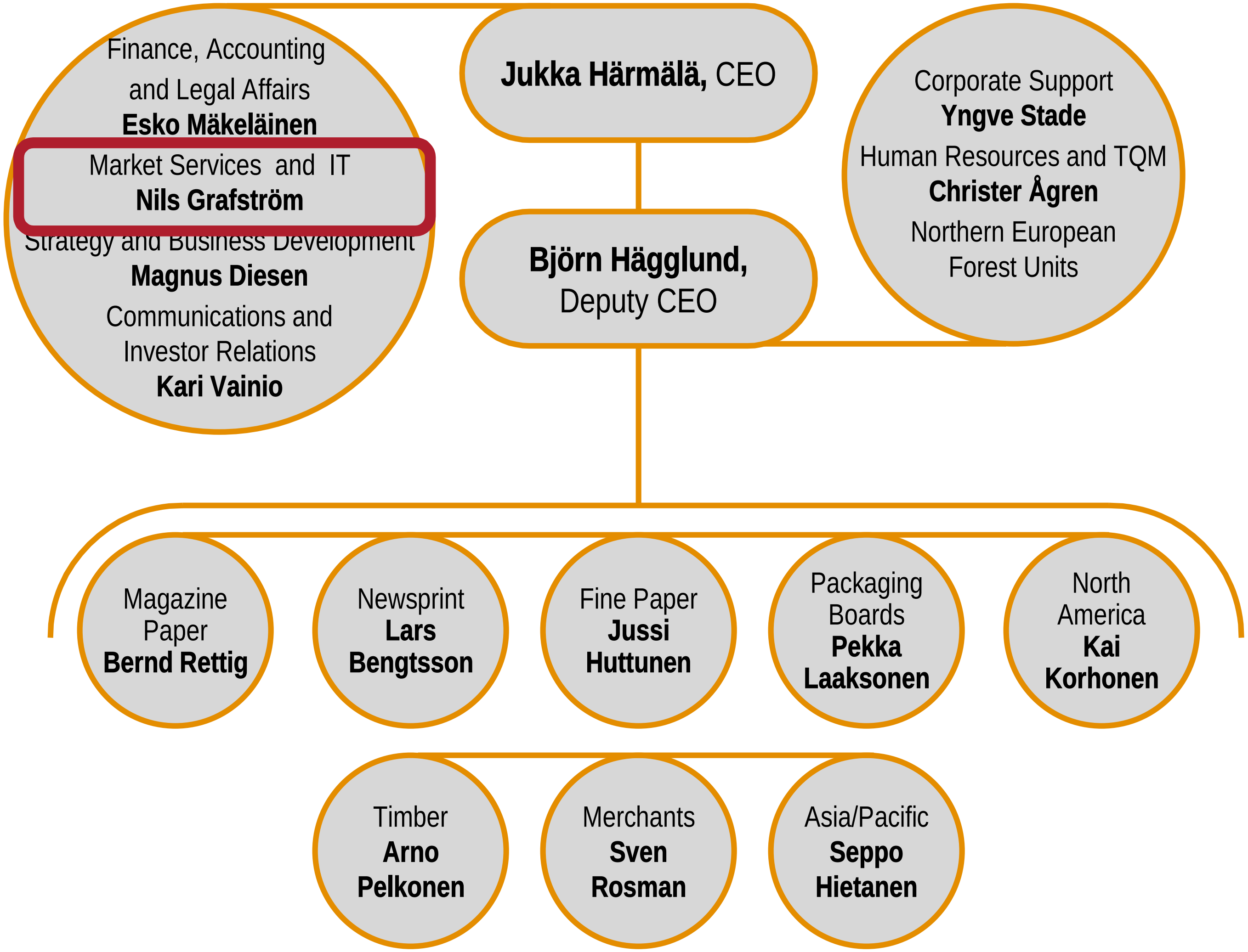
From Corporate Governance to IT Governance

Group Structure



IT Organisation
Alignment with business

- **Hybrid IT organisation (totally about 550 internal people)**
  - **Mill / Unit IT**
    - reports to local unit, trend to outsourcing
  - **Division IT**
    - typically 1-3 people (exception North America)
    - aligns business requirements and IT strategies and resources
    - buys services from Corporate IT – among others
  - **Corporate IT**
    - About 90 people
    - Renders common services (global infrastructure, common applications)
- **Conclusions**
  - \+ Gives local power (business – IT link)
  - – Common developments take longer
- Corporate IT **governance model** needed to establish common directions

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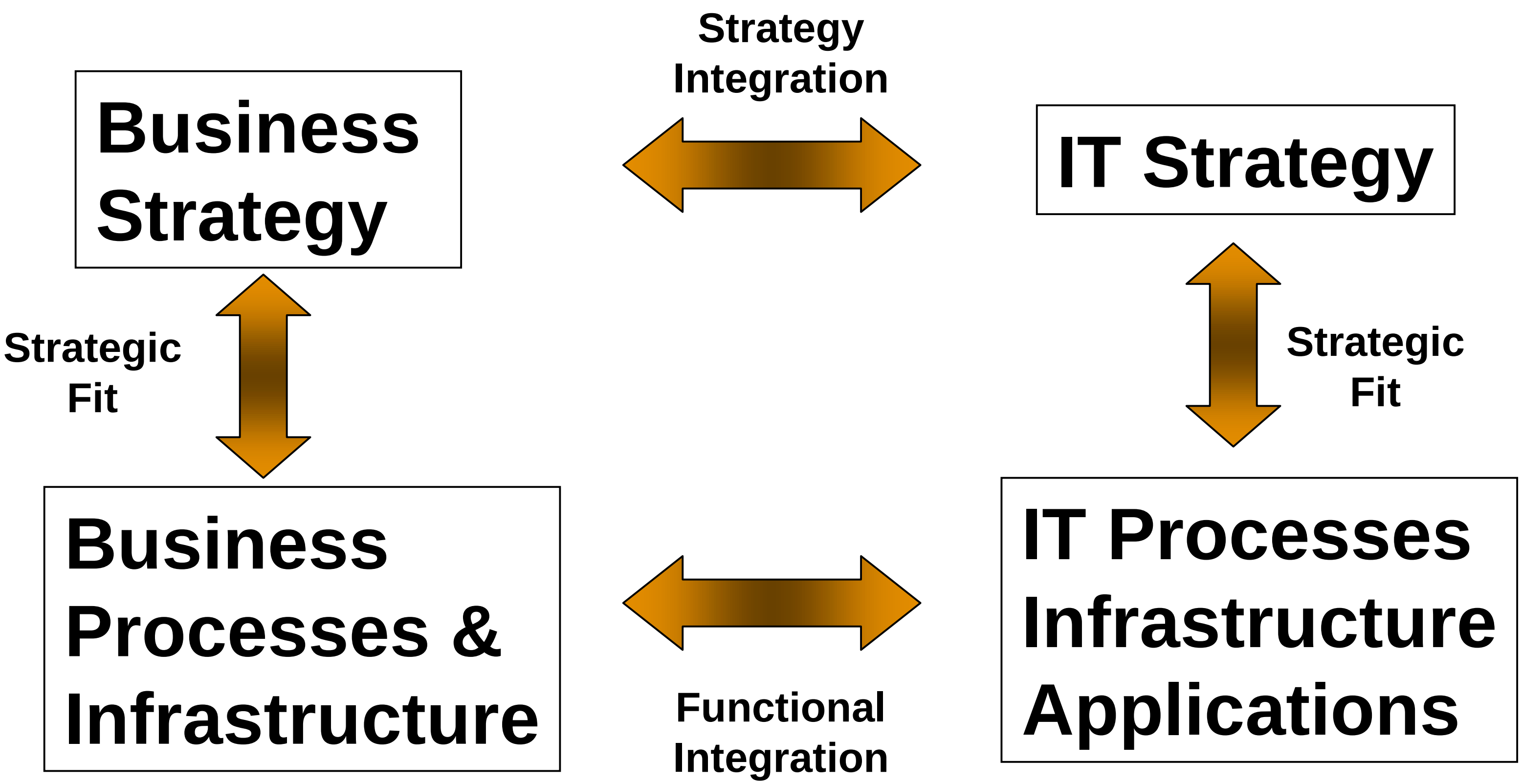
IT - Strategy Planning

IT Strategy - elements

- **Strategic Project ...**
  - is a request for money
    for a journey
    to an unknown,
    however glorious goal
    without mentioning
    the risks.

IT Strategy - elements

- **Strategy is the economy of forces**



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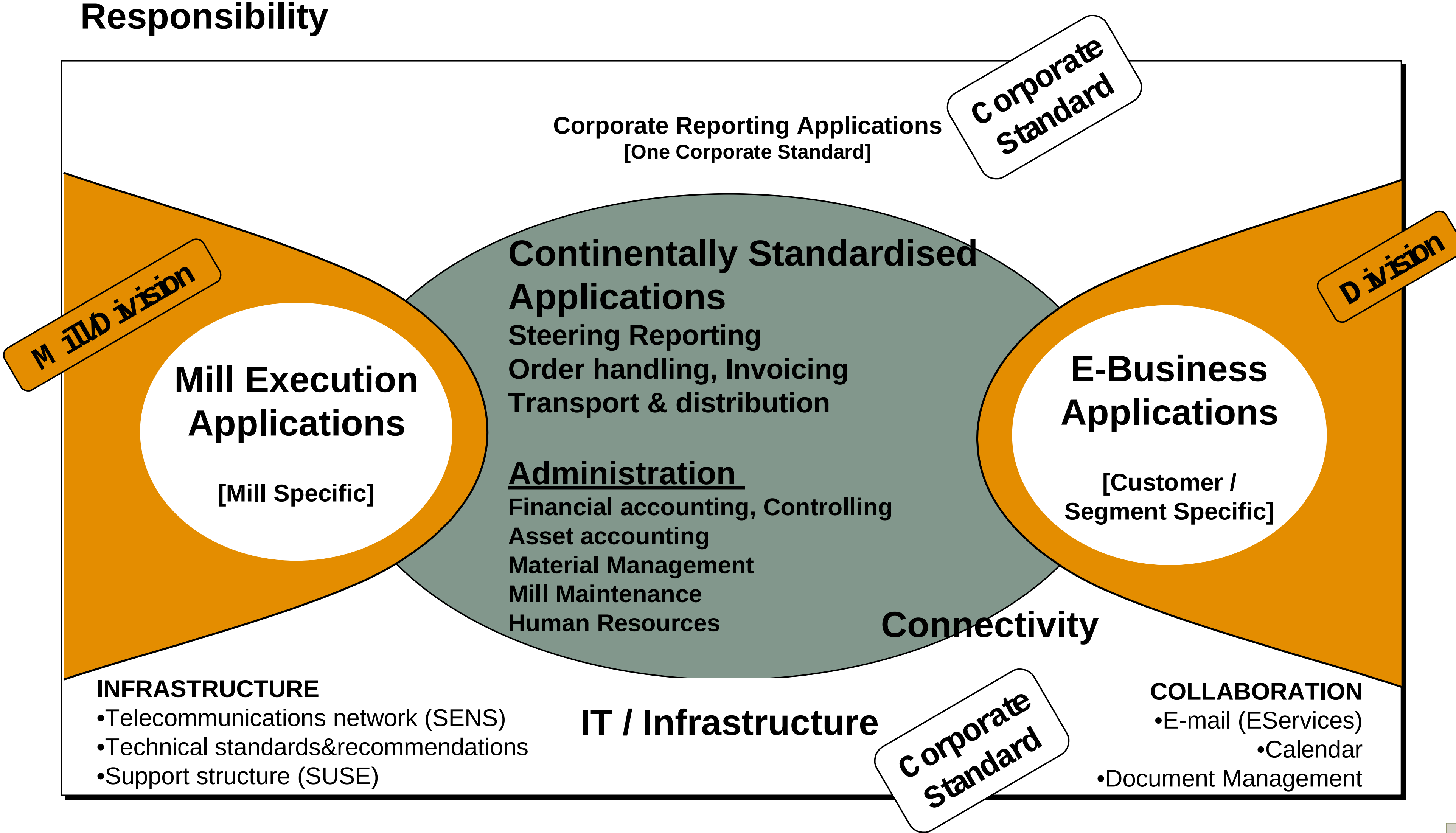
Target Architecture - Overview

Target Application & Service map
Responsibility



Continentally Standardised Business Applications

STORAENSO

	N.A.	Europe	A-P	"Other Continents"
Steering Reporting	JDE	Fenix	to be defined	Misc
Sales	JDE	Fenix	to be defined	Misc
Transport & Distribution	JDE	Fenix	to be defined	Misc
Administration • Finance • HR • Purchasing • Maintenance	JDE	SAP	to be defined	Misc
				Forest Papyrus Timber

Very ”light” (or manual) inter-continental bridging between continental applications

- Steering Reporting (implementation started after acceptance)

- Sales
- Logistics

(Implemented only if and when needeed)

One standard, integrated set of business applications per continent

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IT sourcing strategy

IT sourcing strategy
Why needed ?

High usage of external resources at Corporate IT

Service Area	mioEUR budget / employee
Infrastructure services	1.5
Business applications (Fenix)	0.6
Administrative applications (SAP)	0.8

- **Example: e-mail**
  - Based on Microsoft Exchange and Outlook
  - 25 000 mailboxes, about 100 servers in various locations
  - Internal Stora Enso staffing: 1 person
- **Example: SENS (Network services – mainly WAN)**
  - Based on contract with TeliaSonera (partly subcontracted to Infonet)
  - More than 500 sites connected to the backbone network
  - Internal Stora Enso staffing: 2 persons

IT sourcing strategy
Expectations on suppliers in general

- **Our suppliers support our objectives as their own**
  - Excellence in products and services
  - Customer orientation - service mindedness
    - See every problem as opportunity to improve
    - Share risk. Be proactive.
    - Make proposals how to reduce cost / improve quality
- **Our suppliers support our growth**
  - Become global - forge global co-operations (for global services)
  - Are not afraid to face competition
  - Cooperate with other suppliers of SE, which may be their competitors
- **Our suppliers are ahead of us in achieving excellence**
  - Cost – competitiveness by continuous improvement and economy of scale
  - Leadership in IT industry (quality and cost-competitiveness)
    - Measurable SLA fulfilment - eagerness to benchmark
    - Follow market and technology trends

IT sourcing strategy
Structure of relationship to suppliers

- Technical
  - Technical / operations personnel
  - Scheduled regularly or as needed
- Service / contract
  - Service managers
  - Scheduled every 1-3 months
  - Review / development of service performance based on KPIs
    Settlement of contractual issues
    Feedback to new products / services
- Strategic
  - Corporate IT / supplier key account / top management
  - Scheduled once a year
  - Information about strategic goals / actions – IT trends.
    Performance expectations - Development of relation
  - Settlement of top issues
- Executive
  - Stora Enso / supplier top management – once a year
  - Purely relational

Service Segmentation and Sourcing Strategy

Product/service → **Strategy**

Contribution to Competitiveness (Large – Small)

	Poor	Good
Large	Strategic Partnership services	Strategic Volume services
Small	Bottleneck services	Standard services

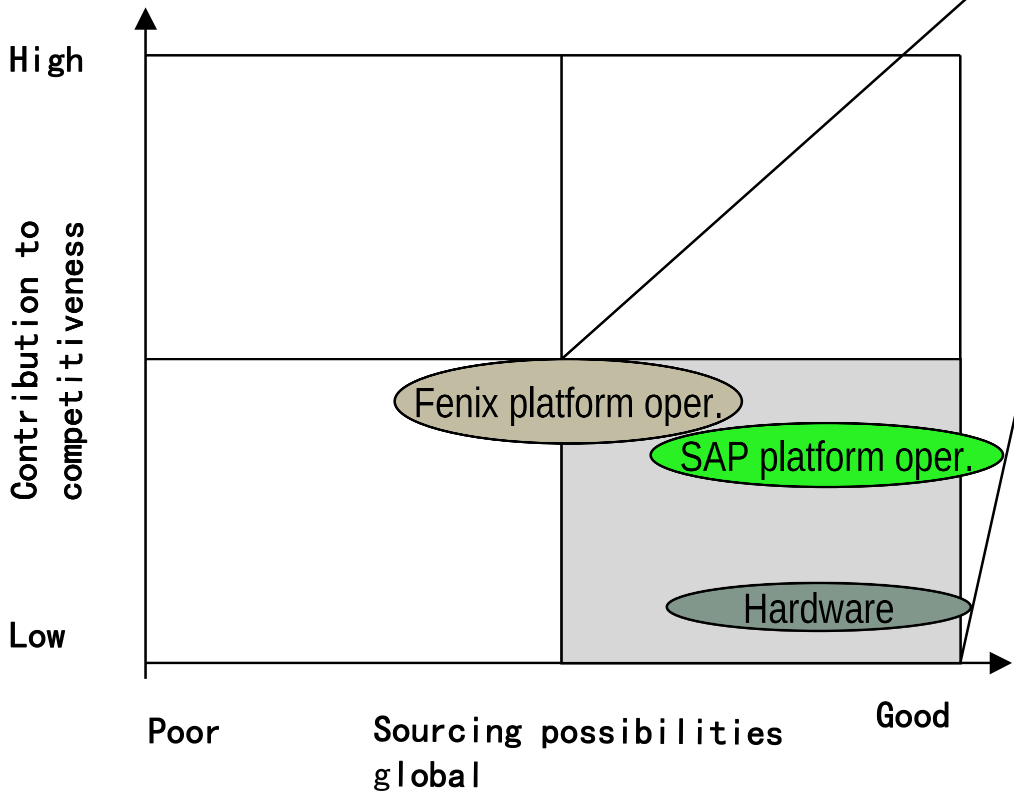
Sourcing possibilities global

Contribution to Competitiveness (Large – Small)

	Poor	Good
Large	Partner to reduce cost and risk	Focus price and quality
Small	Secure Continuous Supply or eliminate	Focus price. Simplify supply

Sourcing possibilities global

Sourcing strategy "Standard Services"

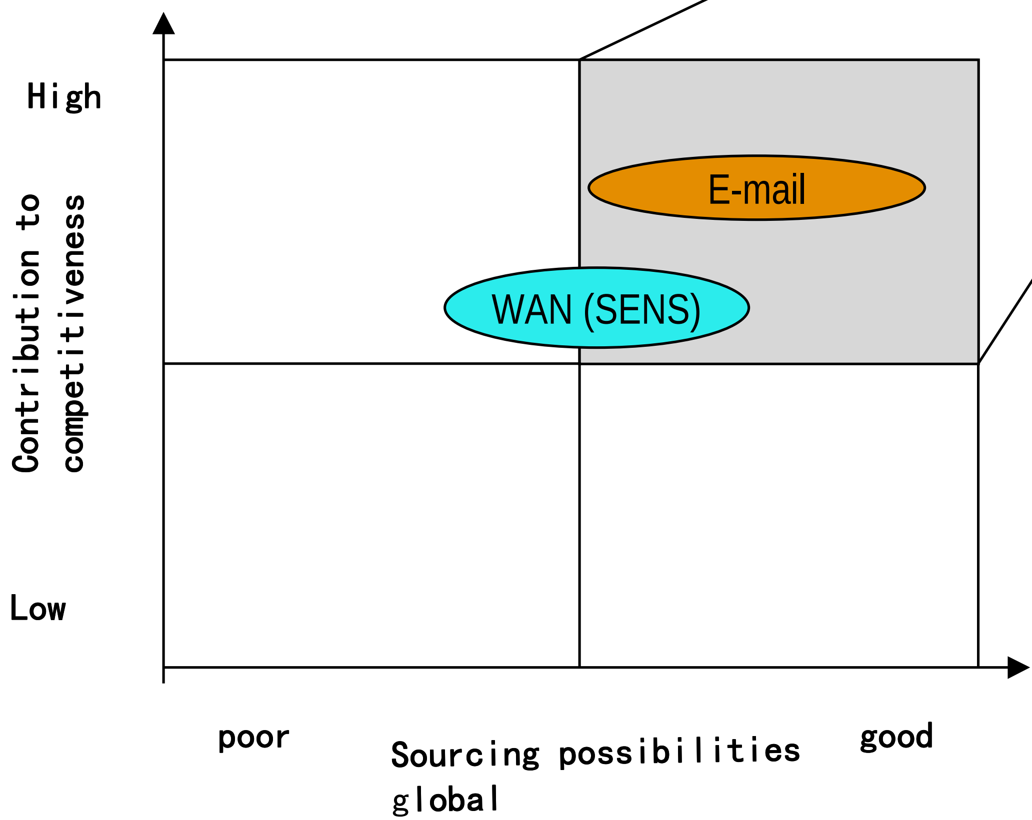


Market situation
- Serious competition
- Vendor consolidation
- Global suppliers
- Standardization
- Lower margins

SE Approach
- Focus price and simplify supply
- Internal standardization
- Watch local street prices

SE Expectations to suppliers
- Measurable SLA fulfillment
- Delighted to face competition
- Help migration to another vendor
- Best price / economy of scale

Sourcing strategy
“Strategic Volume servic

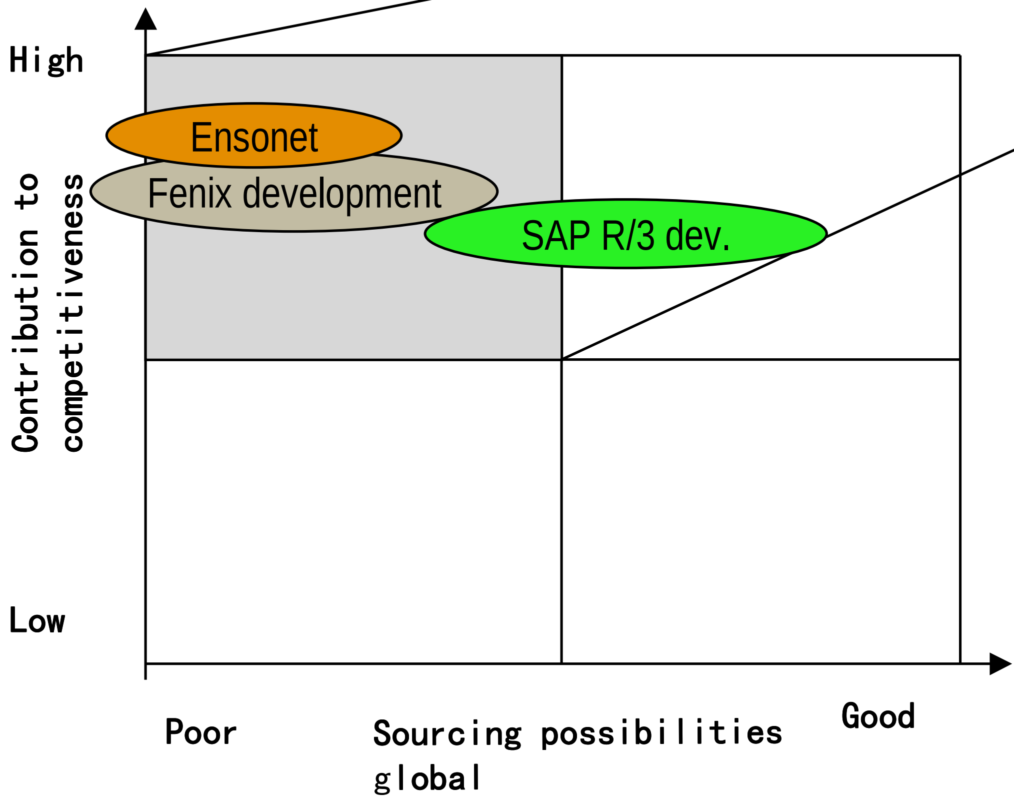


Market situation
- Good margins
- High customer volumes
- Vendor consolidation [Telecom-industry, Peregrine-ARS Remedy]
- Economy of scale

SE approach
- Internal standardization
- Focus price and quality
- Benchmarking for continuous improvement

SE expectations to suppliers
- Guaranteed SLA fulfilment
- Eager to benchmark
- Customer orientation
- Proactive improvement
- Help/plan migration to another vendor
- Best price / economy of scale

Sourcing strategy
"Strategic Partnership services"

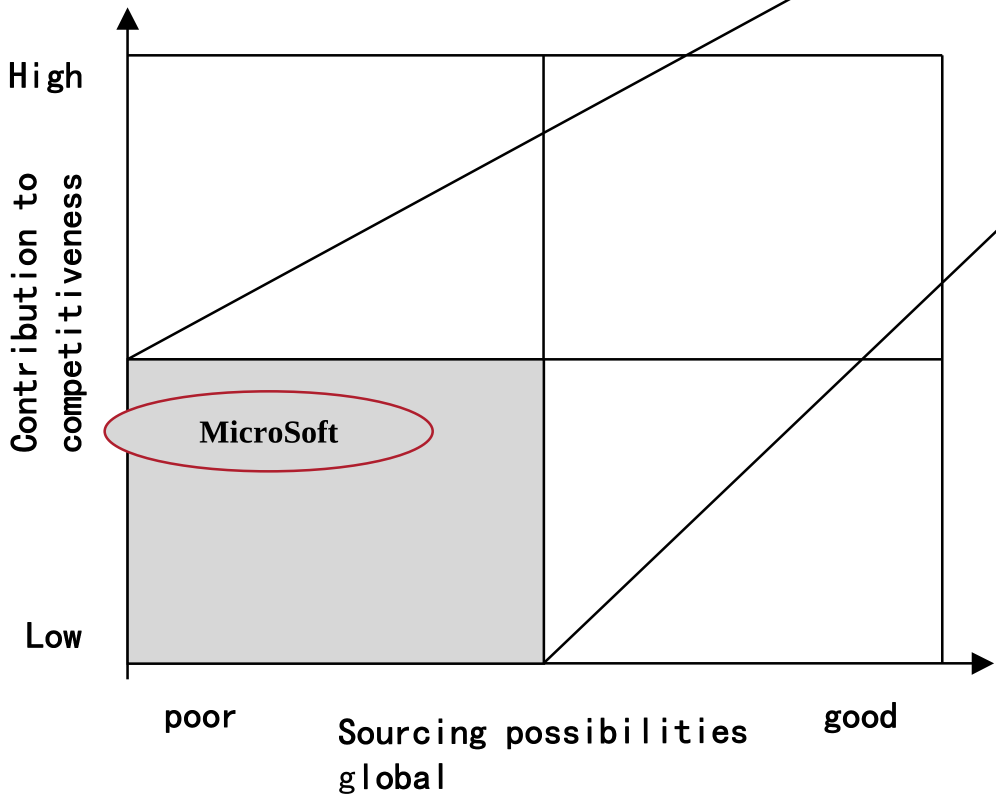


Market situation
- Quality, competence are key
- IT and business knowledge
- Services give a competitive edge
- High margins

SE approach
- Partner to reduce cost and risk
- Economy of scale internally (common system)

SE expectations to suppliers
- Unique competence
- Guaranteed SLA fulfilment
- Take responsibility / share risk
- Eager to benchmark / open books
- Resource flexibility
- Customer orientation
- Proactive improvement
- Best price / economy of scale

Sourcing strategy “Bottleneck services”



Market situation
- Higher margins
- Less competition or no competition (Microsoft and Mainframe)
- Price sensitive

SE approach
- Secure the supply or eliminate the service
- Standardization
- Economy of scale internally (global system)

SE Expectations to suppliers
- Measurable SLA fulfillment
- Best price / economy of scale

Take-away messages

The IT supply approach

- Stora Enso follows a selective outsourcing model
- Services are categorized in 4 quadrants
- The same supplier may be viewed as commodity supplier for a given service and as a partner in another service.
- Commodity type relationships will take advantage of competitive pricing.
- Strategic relationships are built on trust, monitored by metrics.
- Stora Enso will focus internal resources on strategic services.

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Service management

Examples by EServices
e-mail / collaboration service

Corporate IT services
World-class services – what does it mean?

- Service content / deliverables / organisation / customer satisfaction determination and KPIs documented.
- KPI's actual vs. target followed in service meetings – base for continuous improvement.
- Long-term vision for service created (incl. SWOT)
- Security: Information risk management process implemented Contingency plans set up and tested, audits done and followed
- Clearly described and communicated Problem Management procedures (or reference to general PM process)
- Clearly described and communicated Change Management procedures (or reference to general CM process)
- M&A readiness – clearly documented and tested roll-out content and procedures
- Costs/efficiency: external benchmark done and actions defined / followed

Corporate IT services
Competences of service manager

- **Key compentence**
  - Customer and supplier relationships
  - Service and contract management
  - Communication and teamwork (network, cultures, partners)
  - Project management
- **Secondary**
  - Technology
  - Training

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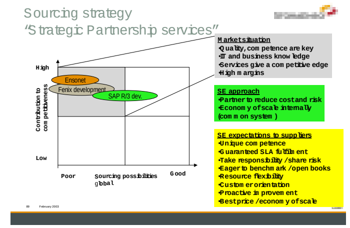
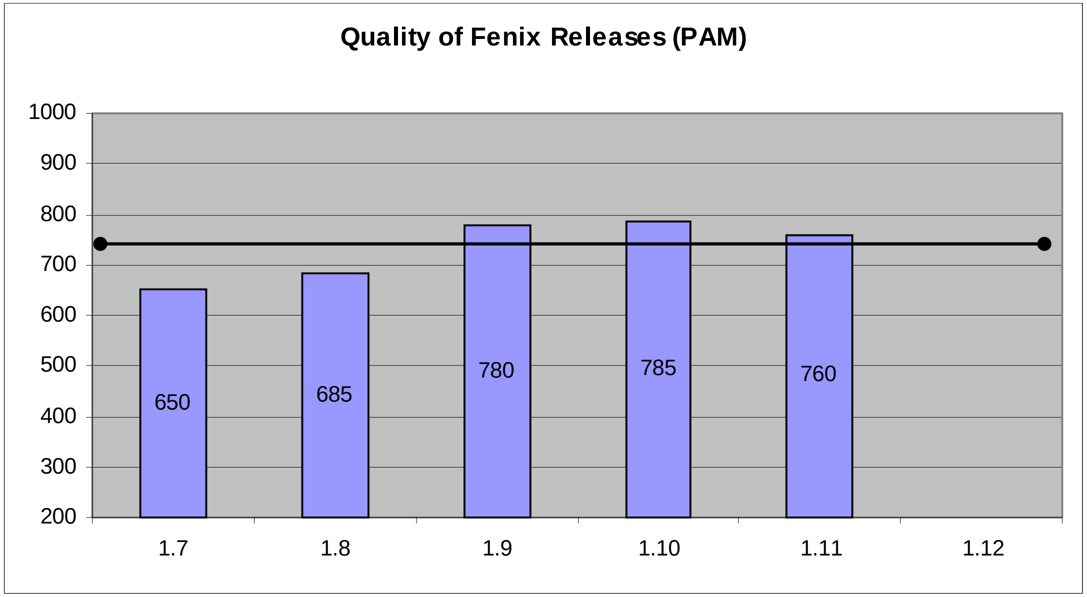
Results

Organisational effectiveness
Partnership services – Fenix development



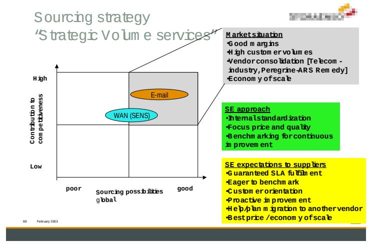
Fenix release quality

- Compound measure for quality of Fenix releases (0...1000)
- Joint development effort of
  Business resources,
  Corporate IT / BACC
  TietoEnator



- Measure comprises
  Compliance of content,
  Errors,
  Delivery in time and
  Estimated work amount
- Positive trend / success story
  due to very close co-operation for improvement.

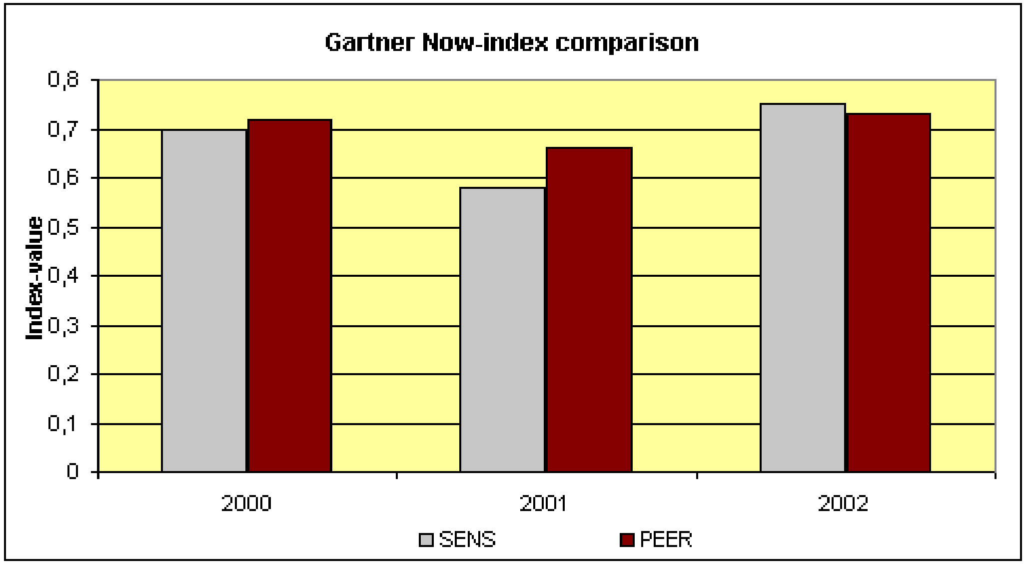
Financial results
Strategic volume services - SENS



SENS – Stora Enso Network Services (TeliaSonera)

- WAN - Wide Area Network
- Common Internet gateways
- Remote Access
- Yearly benchmark by Gartner Group, paid 50/50
- Lost favorable position
- Going for new contract by submitting Request for Tender
- We will aim for massive cost reduction in new contract.

NOW index – low value is favorable



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Conclusions

The take-away message

What have we seen today?

The main driver Stora Enso business vision

The role of IT

The IT architecture of common systems supporting harmonized processes.

The **IT sourcing** strategy

The IT Service model for solid service delivery to make the customer of IT happy.

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THE END

If you have been, thank you for listening