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Good afternoon everyone

I am Dermot Smurfit, Chairman of the company and also, for my sins I am Chairman of the World Containerboard Organisation, and President of FEFCO which is the corrugated box association of Europe.

I have been asked to speak to you today about the success of the acquisition of what used to be called Savon Sellu and now known as Powerflute.

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I suppose I have to go back to the middle of 04 to begin the story.

I was actually at a bird shoot hosted by a Portuguese paper company when I met Jouko Jaakkola who at the time was CEO of M- Real.

Over dinner Jouko asked me what I was going to do with my life as I had recently retired from Smurfit Group after a 40+ year career which had seen Smurfit grow from a small family owned company based in Dublin Ireland into the world's largest paper based packaging company.

To give you an idea of Smurfit it had floated on the Irish and London stock markets in 1964 with a market cap of 1 million and was sold to a private equity buyer (Madison Dearborn of Chicago) for 3.7 billion at the end of 02.

Not bad you might think and you would be right. What we were even more proud of was the fact that Smurfit was never part of the problem of the industry but rather part of the solution.

The problem of course is that the industry forever over builds capacity as soon as profitability allows executives to have spare cash burning a hole in their pockets, thereby ensuring that supply generally is greater than demand. A chefs recipe for disaster!!

This is something Smurfit never did. In 1964 Smurfit had a total capacity of 10000 tonnes and by 2002 that had risen to 13 million tonnes and we had never built a paper machine!!!!

How was this achieved ----- well all by acquisition of course? And I have to say we were very good at acquisitions under the able leadership of my brother and Chairman Michael.

So back to Portugal.

I replied to Jouko that my natural position in life would be to buy unwanted assets in the paper business and his response was swift “I have one of those “.

He then mentioned Savon Sellu and of course I knew of the mill since we at Smurfit had been buying its paper for many years so naturally I was very interested

I arranged with Jouko to visit the mill and was very impressed with the physical state of the plant even if the financial position at the time was not too rosy as the mill was in loss and the market conditions where very hostile indeed.

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After my visit I wrote up a business plan of the area's I felt could be improved and then invited two ex colleagues of mine from Smurfit to do the DD.

This brings me to mention Ian Halliday who after I bought the mill became the CEO and did the longest commute in the world.

Ian was and is living in Hobart in Tasmania and he commuted for two years to Kuopio. His schedule was about 4 weeks at the mill and 4 weeks back home and you can imagine the shock to your system when you leave Hobart in January with temperatures of 100 degrees and 2 days later you are in Kuopio and it is minus 36 .

Ian had joined Smurfit as CEO of our Spanish operations when I was Chairman of Smurfit Europe. He was ex Mondi and was anxious at the time to move his family out of South Africa. I had then moved him to run Nettingsdorfer which is a Kraft liner mill in Austria and under our direction Nettingsdorfer had become the most productive Kraft mill in the world as I retired from the Group.

The other ex Smurfit colleague who joined me was Tony Smith who became Deputy Chairman of Powerflute. Tony and I had worked together for many years in Ireland and the UK where he retired as CEO of the mill division having done a stunning job in turning around a mill called Townsend Hook which I acquired from the Murdoch Empire.

So now here I was surrounded by two seasoned paper executives whom I knew and trusted and we began the process of installing a serious culture change in the mill

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I am now going to take you through briefly what we did in detail since - here is the mill.

It is not a hug mill by man standards but at 300,000 tonnes per annum it is broadly the same size as its two main competitors, being Heinola here in Finland, and the Gruvön Mill of Billerud in Sweden.

Interestingly the builders back in the '60's built a 6.6 metre trim machine, displaying great foresight as corrugators are now being built at 3.3 metres wide. This will be a big advantage to us in the future.

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So as I and my investor group purchased the mill, what did we see existing?

Well as we saw it this was :

- A typical non-core asset in a big company, and I will come back to the issue of non-core assets later in this presentation.
- A company unable to cover its cost of capital and therefore a destroyer of shareholder value.
- A company that was perceived to be in a twilight product sector and therefore in danger of closure.
- An aging work force de-motivated by the closure prospect.
- Not surprisingly, disillusioned and aging management.
- Little or no capex spend.
- A high cost base.
- Poor housekeeping and safety standard.

- Poor work practices, with little emphasis on production standards, no planned maintenance, nor fault finding analysis.
- But finally on the positive side, a stable labour force with good union relations and a no strike history in the plant.

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So what actions were to be implemented?

In a turn round one only has a limited amount of time to set the new mood, to set the new tone. It is the honeymoon period and it must be well used.

- We immediately removed the old management team (with the exception of the Mill Manager, Juha Koukka):
- We immediately appointed Ian Halliday as CEO.
- We brought back to the mill a lady called Ulla Eränummi-Sirén as VP of sales/marketing, empowered to install a completely new sales organisation.
- We developed a new work plan which many viewed as saving 180 jobs, rather than seeing all 262 lost.
- We undertook to spend depreciation capex.
- Appointed a new Finance Director – Ari Lehtola, who in turn introduced new financial controls.
- And we introduced a new bonus scheme.

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Just to drill into this a little deeper we look at how to de-bottle the plant, significant discussions with our labour unions which I have to say were taken in a very positive manner and we introduced standards right the way through the plant.

These included:

- A debottle-necking study by Pöyry Engineering.
- Our negotiations with the labour union, and where we gave undertakings to use soft methods where possible.
- Introduced standards for paper machine operators.
- Introduced weekly reporting on short-falls to targets.
- Introduced a failure registrar for issues generating more than 2% in lost time or output.
- And we introduced a root cause analysis, and follow action plans, for resolution of failure items.

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A major part of the mills problems was maintenance which has been failing for a long time in this company. So we immediately commenced improvements in this vital area also.

- We introduced critical equipment analysis.
- We conducted failure mode analysis on that equipment.
- We introduced maintenance strategies for same equipment.

- We brought to the mill the concept of condition monitoring things such as vibration analysis, oil analysis, thermography etc.
- We introduced planned maintenance shuts.
- And conducted root cause analysis on failure items.

None of these items you might think were rocket science – and you would be right.

But I do have to say it is easier for me to repeat them here, than it was to implement what was then a serious fundamental change in how the mill was to be operated.

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On the personnel front, again you can see the detail but what all this added up to was really a complete cultural change in the plant where the labour began to truly believe that the owners were determined to make a success of the operation and were there to develop it in such a way that employment security was significantly enhanced.

This meant big changes to our labour force as we:

- Implemented improved house-keeping.
- Re-emphasised safety training and near miss reporting.
- Brought in risk assessment.
- Improved in-house communications through monthly meetings with the Unions, quarterly feed back sessions on progress and half yearly State of the Nations Reports to all employees.
- We introduced development raining for all key managers.
- And at the same time introduced problem solving skills to supervisors, and key operators.

- And we focussed on absenteeism believing that normal Finnish statistics to be nearly 4 times the EU average.
- And finally in this area, we celebrated success. Any record achievement was celebrated by all the mill with a beer feast or whatever. All had to know that their efforts were leading to success.

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And of course we were also focussed on the cost side of the business so we were renegotiating all supply contracts, whilst at the same time being involved in a very complicated IT exercise to split the mill away from its previous parent.

We also renegotiated terms of supply payments, since of course our costs are Finnish but our revenues are practically entirely outside this country and so these have to be in balance if Finnish enterprise is to survive in the long haul.

To handle all this we employed a new Contracts Manager.

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Whilst all these actions were happening internally, our new sales and marketing director was completely revamping the sales organisation which heretofore had been managed at group level. Again this took a significant period of time to achieve and once again IT systems played a major role in developing new sales and order entry systems and here I would like to say a huge thank you to our hosts IBM, since they played a seriously vital role in assisting on all these IT changes and without them a lot of what we achieved would not have come to pass.

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On the management front we were delighted to find that good new managers wanted to come and work with us and they were excited with the new ideas and processes that we were bringing to the mill. We offered people significant equity and cash bonus in return for significant results – something I have to tell you that I believe in very strongly.

This allowed us to develop a highly motivated new management scheme and they in turn :

- Developed the short term investment plan to bring us to the mills true capacity of 300,000 tonnes (we have yet to get there, but are confident we will in the next few years).
- Developed a longer range strategic plan which continues to evolve.
- Now focus on accountability of actions for second line management.
- And who accept outside advice, not as interference but as an aid to “getting the job done”.

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So what were the results of these actions? While we believe we ended up with a highly motivated management team and a well paid motivated labour force who value job security.

This in turn has been the key driver to the improvements we have seen.

- Production increased by over 21,000 or 10%.
- Productivity per capita increased from 852 tonnes per head in 2004 to 1340 tonnes in 2006, a 58% improvement.
- Working capital to sales improved from 21% to 12.8%; a 39% gain.

- And added value per capita increased remarkably from minus 1145 euro per head to a positive 65,778 euro per head, one of the highest amongst public companies we have analysed.
- Our logistics costs improved also through use of only four ports.

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We paid the highest ever bonus that the employees had ever achieved in 2005 and then beat that again in 2006. Maintenance costs were down dramatically and absenteeism fell by over 50% still, in our judgement at 3.9% too high.

And all this has lead to:

- A business which returns significantly in excess of its WACC.
- A business that is growing in a sector previously seen as twilight.
- And a business that has returned significant value to its shareholders.

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So this is what we did at the mill itself but of course that alone would not be enough .I also wanted and needed strong Finnish people around me who could be advisers on local issues such as culture wood and so on so I determined from the outset to run the company as if it were a public company. I asked two Finns to join the board. Juha Niemela was the first and I am sure he would be well known to you .

I had known Juha from my days on the board of CEPI (Confederation of European paper Industries) and could not believe that he was in any sense culpable of the accusations of price manipulation levied at him by the US authorities. So I asked him to join me and thankfully he did. For as you now all know he was totally exonerated by the US authorities on completion of their investigation.

I also met and came to both admire and respect a lawyer at Hannes Snellman called Mikko Heinonen who heads up their corporate practice. Mikko also joined the board and both have been staunch advisors ever since.

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So what of the future for Powerflute, well it is our vision that in producing Nordic semi chemical we own what I would refer to as the Chateau Petrus of flutings. There are only three manufacturers of this grade, two of which have been owned by large paper companies which have not necessarily understood this fact and so we worry that our Chateau Petrus is actually sold at Chateau le Plonk prices.

Will this vision occur in the future I know not, what I do know is that many economists would look at our grade and wonder why we do not display the real pricing power in our actions. Since from an economists point of view the product is in short supply, the product is without doubt the best. It is practically impossible to believe that anyone will ever build in the future a Nordic semi-chem mill because even at what looks like decent returns today the return on a new build which Poyry estimate at north of €300M for a 300,000 tonne mill would give its owners a pre-tax return of only 1 – 2%.

On top of these you then have to have the birch, you have to have the permits and finally a new builder would have to try and squeeze 300,000 tonnes into a 900,000 tonne market. Couple all those together and it is our belief that this product should have serious pricing power.

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Before I finish I would like to spend a few minutes to outline for you my thoughts on what I like to call Orphan Assets. Other terminology includes Non-Core or Non Strategic Assets.

My contention is that practically every major company in the world has such assets and this is a natural part of the growing process. When a company goes to complete a major acquisition it invariably does one of two things.

It either acquires assets it doesn't really want along with those it does or as I think probably happened in the case of Savon Sellu a company acquires major assets in a different business and refocuses itself away from assets which before then were part of the core.

There is no need for criticism in these circumstances for as I have said this is a natural progression in the lifetime of a corporate entity and it is in fact the smart managers who recognise that an asset is no longer core and who disposes of it before too much value is lost.

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So this is where we at Powerflute fit into the greater scheme of things since some of you may know we recently floated the company on the AIM list of the London stock exchange (the first Finnish company to do so I am proud to say and if I can give some advice to anyone here contemplating such a move then be sure to use Hannes Snellman in Helsinki and Collins Stewart

in London since we have been the guinea pig and they now have an expertise that will mean it will be much cheaper for you than it was for me !!!!)

We floated so that we have access to the Capital markets in order to complete other acquisitions and if I have a purpose in standing before you today it is not to blow our trumpet and say how smart we are but rather to say if any in the audience have within their asset portfolios assets that really do not fit, assets where some one else needs to expend significant intellectual time and horse power we stand ready and willing to speak to you.

As some of you may know I have also led the purchase of Pankakoski which again in our view at the time was not really a core business in its previous ownership and I look forward in time to be able to tell you about its renaissance as well.

Thanks for listening. I hope you found it useful.