The financing of Stora Enso

A research paper prepared for Friends of the Earth Europe and Friends of the Earth International

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Summary

Stora Enso is a Finnish-Swedish paper and pulp manufacturer with the head office located in Helsinki, Finland. In 2009 Stora Enso realised total sales of € 8.9 billion.

At the end of 2009, the Stora Enso Group owned assets with a total value of € 11.6 billion. Shareholders are the most important financial stakeholders of Stora Enso, financing 44% of its assets. Bondholders are also very important, financing almost 24%. Bank loans are only moderately important as a source of capital for Stora Enso (7% of total assets).

The most important shareholders of Stora Enso, owning more than 2% of the shares, are:

• Finish state	Finland	12.30%
• Foundation Asset Management	Sweden	10.15%
• Kela	Finland	3.37%
• Orbis Investment Management	Bermuda	3.29%
• Ilmarinen Mutual Pension Insurance	Finland	2.69%
• Janus Capital Management	United States	2.17%

The most important bondholders of Stora Enso, owning more than 1% of the outstanding bonds, are:

• ManuLife	Canada	2.07%
• New York Life Insurance	United States	1.64%
• Lincoln National Life Insurance	United States	1.39%
• AXA	France	1.28%
• Principal Life Insurance	United States	1.07%

The most important banks involved in bank loans to the company are:

• Crédit Agricole	France
• Deutsche Bank	Germany
• European Investment Bank	Multilateral
• Handelsbanken	Sweden
• RBS	United Kingdom

Investment banks helping the company to issue shares and bonds are:

• HSBC	United Kingdom
• SEK	Sweden

In the period 2007-2009 Stora Enso received various government subsidies, with a total value of € 13.5 million. Most subsidies were granted by the Finnish state agency Tekes (7.68 million in the period 2007-2009).
Under the European Emissions Trading Scheme, Stora Enso in 2008 and 2009 received emission rights with a total value of € 49.5 million per year, resulting in net income flows of € 21.9 million and € 21.8 million respectively.

Introduction

The objective of this report is to analyze the financial stakeholders of the Finish-Swedish paper and pulp producer Stora Enso. Significant shareholders and bondholders and all private and public banks which have been involved in loans to and stock issuances by Stora Enso in the past three years, have been identified.

A summary of the findings of this report can be found on the first pages of this report.

Chapter 1 The financing of Stora Enso

1.1 Short company profile

Stora Enso is a Finnish-Swedish paper and pulp manufacturer producing newsprint and book paper, magazine paper, fine paper, consumer board, industrial packaging and wood products. Stora Enso was created in December 1998 when Stora and Enso merged. Now its head office is located in Helsinki, Finland. Stora Enso employs 27,000 people worldwide in more than 35 countries and 88 different production facilities.[1]

In 2009 Stora Enso realised total sales of € 8.9 billion and produced 12.7 million tonnes of paper and board, 1.5 billion square metres of corrugated packaging and 6.9 million cubic metres of sawn wood products.[2]

1.2 Financial structure

At 31 December 2009 Stora Enso owned assets with a total value of € 11,593.2 million. These assets were financed by the following financial stakeholders:[3]

• Shareholders	€ 5,124.3 million	44.2 %
• Bondholders	€ 2,744.1 million	23.7 %
• Trade partners	€ 1,303.5 million	11.2 %
• Banks	€ 787.5 million	6.8 %
• Tax agencies	€ 472.5 million	4.1 %
• Joint-venture partners	€ 58.2 million	0.5 %
• Others	€ 1,103.1 million	9.5 %

Shareholders are the most important financial stakeholders of Stora Enso, financing almost half its assets. Bondholders are also important, financing almost 24% of its assets. Bank loans are only moderately important as a source of capital for Stora Enso (7% of total assets).

1.3 Shareholders

Shareholders financed 44.2% of Stora Enso's assets at the end of 2009. Stora Enso's shares are divided into A and R shares. All shares entitle holders to an equal dividend but different voting rights. The shares are listed on the stock exchanges of Helsinki and Stockholm. The R shares of Stora Enso are traded in the United States in the form of ADRs. These ADRs are registered by Deutsche Bank Trust Company Americas and have the same value as R shares.[4]

At 31 December 2009 Stora Enso had a total of 789.5 million shares outstanding. Table 1 gives an overview of the major shareholders of Stora Enso, owning more than 0.20% of the shares. For each shareholder we indicated to which reporting date the shareholding data refer. Some of the shareholders mentioned own the shares for their own account. But the shareholders which are asset managers, generally manage the shares on behalf of their clients. The percentage of shares is based on the total outstanding shares (789.5 million) as at 31 December 2009 and the value is based on the share prices of Stora Enso's A and R shares as at 22 April 2010, € 6.20 and € 6.07 respectively.[5]

Table 1 Shareholders of Stora Enso

Investor	Country	Shareholding			
		Number	%	Value (€ million)	Filing date
Finish state	Finland	97,079,438	12.30	601.9	31-Oct-2009
Foundation Asset Management	Sweden	80,123,386	10.15	496.8	31-Jan -2010
Kela	Finland	26,601,051	3.37	164.9	31-Jan-2010
Orbis Investment Management	Bermuda	25,982,935	3.29	161.1	30-Sep-2009
Ilmarinen Mutual Pension Insurance Company	Finland	21,236,848	2.69	131.7	31-Jan-2010
Janus Capital Management	United States	17,145,817	2.17	106.3	31-Jan-2010
Keskinäinen eläkevakuutusyhtiö Varma	Finland	15,712,991	1.99	97.4	31-Jan-2010
SEB	Sweden	7,257,822	0.92	45.0	31-Jan-2010
Pohjola Asset Management	Finland	6,121,455	0.78	38.0	31-Jan-2010
Valtion Eläkerahasto	Finland	6,000,000	0.76	37.2	31-Jan-2010
MP Bolagen i Vetlanda	Sweden	5,978,184	0.76	37.1	31-Jan-2010
BlackRock	United States	5,500,503	0.70	34.1	28-Feb-2010
Gartmore Investment Management	United Kingdom	4,254,880	0.54	26.4	30-Nov-2009
Erik Johan Ljungberg's Education Fund	Sweden	4,116,764	0.52	25.2	31-Jan-2010
Swedbank	Sweden	3,941,530	0.50	24.4	31-Jan-2010
Nordea Bank	Finland	3,476,045	0.44	21.6	31-Dec-2009
DnB NOR	Norway	3,137,185	0.40	19.5	31-Jan-2010
New Jersey Division of Investment	United States	3,000,000	0.38	18.6	31-Mar-2009
Danske Capital	Finland	2,989,284	0.38	18.5	31-Dec-2009
Suomi Mutual Life Assurance Company	Finland	2,600,000	0.33	16.1	31-Oct-2009
Mandatum Henkivakuutusosakeyhtiö	Finland	2,393,500	0.30	14.8	31-Jan-2010
UBS	Switzerland	2,562,961	0.32	15.9	31-Oct-2009
Etera Keskinäinen Eläkevakuutusyhtiö	Finland	2,309,348	0.29	14.4	31-Oct-2009
Pension Fennia	Finland	2,276,300	0.29	14.1	31-Jan-2010
Alfred Berg (part of BNP Paribas)	France	2,300,245	0.29	14.3	31-Jan-2010
Aviva	United Kingdom	2,243,133	0.28	13.9	31-Jan-2010
Bergslaget's Healthcare Foundation	Sweden	2,235,752	0.28	13.9	31-Jan-2010
Vanguard Group	United States	2,204,646	0.28	13.7	31-Jan-2010
State Street	United States	2,184,670	0.28	13.5	various
Invesco Asset Management	United Kingdom	2,119,290	0.27	13.1	31-Dec-2009
Handelsbanken	Sweden	2,052,314	0.26	12.7	31-Dec-2009
Brummer & Partners	Sweden	1,973,260	0.25	12.2	31-Jan-2010
Bank Degroof	Belgium	1,919,409	0.24	11.9	30-Sep-2009

Source: Thomson One Financial Database, Viewed in April 2010.

1.4 Bondholders

Bondholders financed 23.7% of Stora Enso's assets at the end of 2009. During the year 2009 Stora Enso raised € 562.0 million through the issuance of bonds.[6]
Information found at the end of April 2010 on the main bondholders (holding above 0.20% of the total outstanding bonds) of Stora Enso is summarized in 1.4. For each bondholder we indicate to which reporting date the bondholding data refer.
The insurance companies and pension funds mentioned in the table mostly own the shares for their own account. But when the bondholders are asset managers, they mostly manage the shares on behalf of their clients.

Table 2 Bondholders of Stora Enso

Investor	Country	%	Value (€ million)	Filing date
ManuLife	Canada	2.07	62.16	31-Dec-2009
New York Life Insurance	United States	1.64	49.10	31-Dec-2009
Lincoln National Life Insurance	United States	1.39	41.54	31-Dec-2009
AXA	France	1.28	38.43	31-Dec-2009
Principal Life Insurance	United States	1.07	31.96	31-Dec-2009
State Farm Life Insurance	United States	0.77	23.12	31-Dec-2009
Nationwide	United States	0.68	20.42	31-Dec-2009
Prudential Retirement	United States	0.61	18.39	31-Dec-2009
Prudential	United Kingdom	0.60	17.99	31-Dec-2009
AIG	United States	0.54	16.04	31-Dec-2009
Massachusetts Mutual Life Insurance	United States	0.45	13.57	31-Dec-2009
Allianz	Germany	0.36	10.70	31-Dec-2009
United of Omaha Life Insurance	United States	0.27	7.96	31-Dec-2009
Old Mutual	United Kingdom	0.25	7.46	31-Dec-2009
TIAA-CREF	United States	0.25	7.46	31-Dec-2009
Hartford Insurance	United States	0.24	7.27	31-Dec-2009
Oneamerica Financial	United States	0.22	6.69	31-Dec-2009
Crédit Agricole	France	0.20	5.97	26-Feb-2010
Capital Group	United States	0.20	5.97	31-Dec-2009
Deka Bank	Germany	0.20	5.90	30-Sept-2009
Blackrock	United States	0.20	5.87	20-Apr-2010

Source: Bloomberg Database, Viewed in April 2010.

1.5 Bank loans

Bank loans financed 6.8% of Stora Enso's assets at the end of 2009. During the year 2009 Stora Enso raised approximately € 138.2 million through bank loans.[7]

The following information was found on financial institutions providing loans to Stora Enso since the beginning of 2007:

- In January 2007, Stora Enso signed a loan agreement with the **European Investment Bank** (multilateral) for a € 140 million loan facility. The loan would support the Stora Enso Group's investment in research activities and technological development between 2005 and 2008 in its pulp and paper mills as well as in dedicated research centres in Imatra (Finland) and Karlstad and Falun (Sweden). "The facility (...) is the result of good long-term co-operation between EIB and Stora Enso." [8]

- In May 2007 Stora Enso secured a € 1,400 million five year revolving credit facility from an international banking syndicate. The proceeds of this loan were used for general corporate purposes and to refinance a € 1.75 billion loan from 2005. The bookrunners of the new facility were:[9]

  - ABN Amro, now part of **RBS** United Kingdom
  - Calyon, now **Crédit Agricole** France
  - **Deutsche Bank** Germany
  - **Handelsbanken** Sweden

  Other banks participating in the loan syndicate were:[10]

  - **Barclays** United Kingdom
  - **BNP Paribas** France
  - **Citigroup** United States
  - **HSBC** United Kingdom
  - **JP Morgan Chase** United States
  - Merrill Lynch, now part of **Bank of America** United States
  - **Morgan Stanley** United States
  - **Nordea Bank** Finland
  - **SEB** Sweden
  - **UBS** Switzerland
  - William Street Commitment, part of **Goldman Sachs** United States

  At the end of 2009, the revolving credit facility was completely unused.[11]

- At the end of May 2009, Stora Enso announced it was negotiating loans with a total value of € 265 million from the **European Investment Bank** (multilateral).[12] As a result, in June 2009 the European Investment Bank agreed to lend up to € 230 million to Stora Enso investments in research, development and innovation related to pulp, paper packaging and forest products and for the construction of the Ostroleka power plant in Poland.[13]

- In February 2010, Stora Enso announced that it has signed a loan agreement with the **European Investment Bank** (multilateral) for a € 65 million loan. The loan will be used for the Ostroleka power plant, which will supply to Stora Enso's operations in Poland. The total investment in the Ostroleka power plant is estimated at € 137 million. The loan agreement is part of the commitment by the EIB to lend altogether € 230 million to Stora Enso for research and development and the Ostroleka power plant.[14]

1.6 Investment banking services

The following information was found on financial institutions providing investment banking services to Stora Enso since the beginning of 2007:

- In May 2009, Stora Enso tapped an earlier bond issuance by € 232.4 million which brought the total transaction size to € 750 million. The new bonds were issued with a 12.25% yield and will mature in July 2014.[15] The proceeds of this issue were used for general corporate purposes. The sole bookrunner was **HSBC Bank** (United Kingdom).[16]

- In September 2009, Stora Enso issued 7-year bonds worth € 390 million under its Euro Medium Term Note programme. The bonds have a floating interest rate of Euribor + 4.21%. The sole lead manager of the deal was SEK Securities, part of the Swedish export credit agency **SEK** (Sweden).[17]

1.7 Other forms of financing

The following information was found on other forms of financing obtained by Stora Enso since the beginning of 2007:

- In 2007 Stora Enso received € 3.3 million in government subsidies. In 2008 this amount increased to € 5.5 million and in 2009 decreased slightly to € 4.7 million.[18]
  The major source of government subsidies is Tekes, the main public funding organisation for research, development and innovation in Finland. In the past three years, Stora Enso received the following subsidy amounts from Tekes:[19]

  - 2007 € 2.34 million
  - 2008 € 4.01 million
  - 2009 € 1.33 million

- In January 2005 the European Union Greenhouse Gas Emission Trading System (EU ETS) commenced operation as the largest multi-country, multi-sector greenhouse gas emission trading system world-wide. The EU ETS covers some 11,000 heavy energy-consuming installations involved in power generation and manufacturing in the 27 member states. Before each trading period of 3-4 years, these plants are allocated CO_2 emission rights for the entire period, based on their historical emissions. If a company needs to emit more CO_2 - for instance because production is expanded during the period - it has to buy emission rights from other companies or it has to achieve emission reductions in other parts of the company. Companies which are at the other hand able to reduce their CO_2 emissions, will have surplus emission rights which they can sell to other companies. In this way, the European Union aims to achieve CO_2 emission reductions in the most economically way.

  After an initial three-year “learning by doing phase (2005-2007), tighter emission caps were set by the member states in their national allocation plans for the 2008-2012 trading period. These emission caps which will make a substantial contribution to EU Member States' achievement of their Kyoto Protocol targets.[20]

  As participant in the EU ETS, Stora Enso has been allocated emission rights to emit a fixed tonnage of carbon dioxide by the various member states in which its largest plants operate (Sweden, Finland, Belgium and Germany). In the last year of the first trading period (2005-2007) - when prices of emission rights dropped to a negligible value - was allocated emission rights for its different plants with a total value of € 7.9 million. The actual cost of its CO_2 emissions amounted to € 1.7 million. As a result, Stora Enso could sell surplus emission rights to other companies for a total amount of € 6.3 million.[21]

In 2008, the first year of the second trading period (2008-2012), the emission rights allocated to the different European plants of Stora Enso had a total value of € 49.5 million. During 2008, the actual cost of its CO_2 emissions amounted to € 27.6 million. As a result, Stora Enso could sell emission rights to other companies for a total amount of € 21.9 million.[22]

In 2009, Stora Enso's emission rights had a total value of € 49.5 million per year. During 2009, the actual cost of its CO_2 emissions amounted to € 27.7 million. As a result, Stora Enso realised a net income of € 21.8 million on these emission rights. Of this amount, € 20.5 million is actual realised profits on the sale of surplus emission rights to other companies, and € 1.3 million is the value of excess emission rights which the company can sell in later years. [23]

Appendix 1 Glossary of financial terms

The services provided by financial institutions to a company, can be divided into three categories:

- Services related to acquiring equity
- Services related to acquiring debt
- Other financial services

We will discuss these three categories of financial services below:

- **Services related to acquiring equity**

  Financial institutions can help a company with acquiring more equity in the following ways:

  - **Direct participation**

    Financial institutions can, through the funds they are managing, buy shares in a certain company. This provides the company with new equity, and gives the financial institution direct influence on the company strategy. This influence of course depends on the size of the shareholding.

  - **Helping to attract equity on the stock exchange**

    Going to the stock exchange gives a company the opportunity to increase its equity by attracting a large number of new, big and small, shareholders. These shareholders can be private investors as well as institutional investors.
    When it's the first time a company offers its shares on the stock exchange, this is called an *Initial Public Offering (IPO)*. When a company's shares are already traded on the stock exchange, it can issue a *secondary offering* of additional shares.
    To arrange an IPO or a secondary offering, a company needs the assistance of one or more investment banks, who will promote the shares and find shareholders. As an IPO attracts a lot of public attention for the company as well as for the arranging investment banks, the investment banks will closely scrutinize the strategies and policies of the company, and demand adjustments if needed. The role of investment banks in this process therefore is very important.

  - **Finding equity outside the stock exchange**

    Going to the stock exchange is expensive, tied to certain restrictions, and requires much transparency of the company. So especially small, starting companies, and privately-held family enterprises, will not always be able or willing to attract capital through the stock exchange. In stead, they can look for equity in an informal way, by approaching private investors, institutional investors, or other companies (e.g. a competitor). They can also ask an investment bank to help them find suitable investors. Many institutional investors will not be prepared to invest in companies which are not traded on any stock exchange. But some will, and some even specialize in this way of investing (the so-called *venture funds*).

- **Services related to acquiring debt**

  Financial institutions can help a company with acquiring more debt in the following ways:

- **Extending a loan**

The easiest way to obtain debt, is to borrow money. Money can be borrowed from individuals or other companies, but most often it is borrowed from a commercial bank. Institutional investors don't play an important role in this respect.
There are several forms of loans:

  - **Short-term loans**

  Short-term loans (including trade credits, current accounts, leasing agreements, et cetera) have a currency of less than a year. They are mostly used as working capital for day-to-day operations: paying materials, machines, taxes, et cetera. Short-term debts are usually provided by a single commercial bank, which does not ask for substantial guarantees from the company. When the company fails to pay interest or repayment, the bank can claim part of the machinery or inventory of the company. This is especially the case with leasing agreements, which are earmarked for financing certain fixed assets. Working capital facilities don't have a fixed currency, but give the bank the same strong guarantees for repayment as other short-term debt.

  - **Long-term loans**

  A long-term loan has a currency of at least one year, but generally of three to ten years. Long-term loans are in particular useful to finance expansion plans, which only bring rewards after some period of time. Often long-term loans are extended by a *loan syndicate*, which is a group of banks brought together by one or more *arranging banks*.
  The loan syndicate will only undersign the loan agreement if the company can provide certain guarantees that interest and repayments on the loan will be fulfilled. This of course gives the commercial banks in the banking syndicate a considerable influence on the company's strategies and policies.
  A specific form of long-term loans is project finance. This refers to the financing of projects where the repayment of the loan is dependent upon the revenues that a project is expected to generate once it is up and running.

- **Issuing bonds**

Issuing bonds is a different way of lending money. It can be best described as cutting a large loan into small pieces, and selling each piece separately. The buyer of each bond is entitled to repayment after a certain number years, and to a certain interest during each of these years. Bonds are issued on a large scale by governments (the so-called *sovereigns*), but also by corporations (the so-called *corporates*).
Bonds have some similarities with shares: both are *securities* traded on the stock exchange. But the owner of a bond is not a co-owner of the issuing company, he is creditor of the company. Bonds have, different from shares, a fixed income (the interest), and bonds will be paid back after a number of years. Bonds (and similar kind of securities like warrants and convertibles) are therefore called *fixed-income securities*.
When comparing bonds with loans, bonds have some advantages. The borrower taps another source of capital (not commercial banks, but the capital market); bonds can have a much longer currency (up to 25 years) than loans; and bonds require less reporting to the lenders. But at the other hand: to reschedule the terms and conditions of bonds when a company is getting into trouble, is very difficult. Loans are more custom-built than bonds, and easier to adapt during the currency.

Bonds are sold on the capital market, to private investors as well as to institutional investors. Banks rarely buy any bonds. But to issue bonds, you need the assistance of one or more investment banks which *underwrite* to a certain amount of bonds. *Underwriting* means buying, with the intention to sell to investors. (But in case the investment bank fails to sell all bonds it has *underwritten*, it will end up owning the bonds.) This process is very similar to an IPO.

- **Other financial services**

  Apart from activities connected directly to acquiring capital (equity or debt), financial institutions do also provide some other services to production, trading and service companies. These are discussed below:

  - **Fiscal planning and trust services**

    A financial institution can help a production company with facilities to plan its investments, loans, bonds, and other capital movements in a fiscal attractive way. A clear example of such a facility, is setting up, housing, and managing a financing company in a tax haven like the Netherlands. The Netherlands is a preferred country to set up financing companies, because of the clauses on so-called back-to-back loans which the Netherlands have concluded in their numerous tax treaties with other countries. A financing company borrows a certain amount from a bank in The Netherlands or another country, and then on lends the same amount to its parent company for a slightly higher interest. The interest-difference is taxed in the Netherlands, but the interest paid by the parent company is free of tax in its own country.
    These kind of services, often referred to as *trust banking*, are provided by specialized trust companies as well as by trust banks.

  - **Selling of assets**

    Selling of assets, either physical or financial, frees capital for the company. This makes it possible to reduce its debts and strengthen its financial position, or reinvest in other business opportunities. An investment bank can use its international contacts to help a company to sell some assets, thereby maximizing the amount of capital which is freed for the company. In general, institutional investors will not be interested in buying the physical assets of a company. But they could be interested in buying certain financial assets of a company, the so-called *secondary debt market*.

  - **Insurance facilities**

    Insurance companies offer various insurance facilities to companies, from damage done to their properties to the (political) risk that their customers will not be able to pay. For exporting companies, this last form of insurance can be particularly important.

  - **Export credit guarantees**

    Export credit guarantees are a specific form of credit insurance, generally provided only by (semi-)public export credit agencies. The guarantee assures the bank that its loan will be repaid if customer is not able to repay it. This reduces the risks involved, and makes it more attractive for banks to extend loans. In turn, this makes it possible for the bank to offer more attractive conditions for its loan.

- **Commodity and currency swap contracts**

  Commodity and currency swap contracts are financial services provided mostly by commercial banks to exporting customers. A commodity swap contract guarantees the exporter a fixed price for its commodity during a certain period, independent of market and exchange rate fluctuations. A currency swap contract guarantees a company a fixed exchange rate for exchanging its export earnings from a foreign currency to the local currency.

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