

Growing Ilim Pulp

Ilim Pulp has some good things going for it—Russia's adoption of a new Forest Code, a joint venture with IP, growing domestic and regional demand for its products, the Russian government's recent embrace of the country's forest products industry, and most of all, Zakhar Smushkin.

By John O'Brien, Managing Editor

*I*n the early 1990's, post-Soviet Russia was thrust into economic turmoil as the world's largest state-controlled economy transitioned to a market-oriented financial system. The fundamental change created years of difficult economic conditions in the country. But for some budding entrepreneurs, it offered opportunities that had never before existed.

Working in the equipment supplier-side of the forest products industry and having a working knowledge of pulp and paper products manufacturing, along with possessing sales and marketing skills, Zakhar Smushkin spotted an opportunity and wasn't going to let it pass him by.

In 1992, Smushkin, along with his partners, created Ilim Pulp—a holding company that would begin by exporting pulp and paper products.

Although the economic landscape in Russia wasn't good, Ilim's exports were delivering revenue from the outside that the holding company would eventually use for re-investment in existing operations and the funding of acquisitions.

Today, Ilim Pulp (*pronounced: Ileem*) stands as Russia's largest forest products company, employing 38,000 people and generating sales in excess of \$1.6 billion in 2006.

PaperAge had the opportunity to conduct an interview with Ilim's co-founder and chairman of the Board, Zakhar Smushkin, and delve into the man, the company, Ilim's joint venture with International Paper and the current business climate in Russia's emerging forest products sector.



How did you become involved in the forest products industry?

For me it was a natural evolution – one thing lead to another. Upon graduating from university, where I majored in various aspects of forest industry operations and management, I worked for an R&D institute, and visited pulp and paper mills on a regular basis. Later, I worked for a joint venture formed with a Swedish company Alfa Laval, which was supplying Russian companies with timber and pulp-processing equipment.

What brought you to the paper manufacturing side?

With the collapse of the centralized Soviet distribution system, Russian mills were left with no marketing or sales skills of their own, thus they paid for the equipment with pulp and cardboard. At the same time, my partners and I, having industry-specific education and knowledge about sales and marketing principles, were selling these products on international markets. All profits were reinvested into shares in the pulp and paper companies.

Ilim Pulp started off in 1992 as an exporter of pulp and paper. Your company now produces over 2.5 million tons of pulp and paper, sales exceed \$1.6 billion. Back then, did you initially envision growing the company to be the size it is now? Or did the pieces fall into place as time went on?

It is a rather difficult question. I think that if you ask any number of people what they are going to do ten years from now, very few of them will be able to anticipate accurately. Nevertheless, my partners and I had a clear understanding of what we were trying to achieve. If we weren't actually foreseeing the company's sales volumes 15 years in the future, the strategy of building a holding company and achieving synergies was, in fact, laid out from the very beginning. That means that acquisitions were not made on an ad-hoc basis, but were carried out according to a certain plan, so that every additional enterprise contributed something new to the overall system. The Russian pulp and paper industry is concentrated on commodities production, which is why for a long period of time we were following the same pattern, focusing on manufacturing market pulp and various types of cardboard.

A few years ago Ilim implemented a "reorganization" program. What has taken place and when will the program be completed?

We launched this restructuring initiative in the end of 2004. These efforts were aimed at the restructuring of the company and consolidating assets under a single share. At the same time, the entire program was far more complex than that.

How so?

After acquiring substantial assets, the time comes to step back and evaluate the structure of what you have. We divided our assets into three groups. First, we separated out those that did not contribute to the overall synergies within the company. Once these assets were spun-off and sold, we had two options



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left. One was to distribute the revenues among the shareholders, and the second was to increase our working capital and to use it for investment purposes. We chose the second option. Although these transactions do not have a direct impact on our main business, they remain important and are ongoing, since acquisition of new assets always brings disposable components with them.

What came next?

The second large component dealt with restructuring the remaining assets. This group represents our core business, namely chemical and mechanical wood processing. One needs to keep in mind a specific feature of the Russian wood-processing industry, which was traditionally built around the concept of a complete wood-processing cycle. There are very few similarly structured companies remaining in the west now.

In addition to mechanical and chemical wood-processing operations, the company has numerous large-scale service businesses, which can be split into two categories. The first represents the services of critical importance to our flagship enterprises, such as the services where Ilim is either the leading consumer or the leading supplier. These are also companies whose services

are in high demand on the open market. Our goal was to turn them into subsidiaries, streamline their staffing, operations, management, etc. The second is comprised of the services that can ultimately be outsourced, or be privatized by their employees. In other words, we are talking about services that face competition on the open market. We will eventually classify these assets as non-core and spin them off.

And the final stage?

The final stage involves consolidating shares of companies specializing in chemical wood processing. This step represents the final and the most important stage of our restructuring efforts aimed at bringing within a single legal framework formerly independent and unrelated companies that were privatized by us along the way. This would involve a single governance structure, with a single Shareholder's Meeting, Board of Directors, CEO, and so forth. The resulting entity will have a management matrix designed around the geographical locations and product lines.

Zakhar Smushkin, co-founder and Chairman of Ilim Pulp, has led the company's transformation from a local St. Petersburg paper and pulp trader, founded in 1992, into a broadly diversified manufacturer of forest products.



Mr. Smushkin is a member of the Presidium of the Union of Industrialists and Entrepreneurs, a public association of the country's leading companies, and heads the Committee on Natural Resources and the Environment.

He was recently appointed head of the Working Group on Innovation and Investment Policy for the Forest Industries, under the auspices of the federal Ministry of Industry and Energy. The Group's goal is to help develop an effective policy to further catalyze the national industry's development.

Serving as Chairman of the Board since 2001, Mr. Smushkin last year was acknowledged as one of the most effective board chairmen of large-scale companies by the Russian Association of Independent Directors and PricewaterhouseCoopers.

Mr. Smushkin was born in 1962 and graduated from the Leningrad State Technological Institute. In 2003 he was awarded an honorary doctorate by the St. Petersburg Forestry Academy. He serves on the Board of Trustees of the St. Petersburg State Technological Institute of Polymers and is a member of the Presidium of the Confederation of Timber Manufacturers of North-Western Russia.

Mr. Smushkin actively supports a range of Russian cultural initiatives and is a patron of St. Petersburg's Hermitage Art Museum. He is an avid tennis player and art collector. He is married and has a son.

This is the essence of our restructuring and reorganization efforts. The program is scheduled to be completed this year.

In October 2006, Ilim and International Paper announced a 50-50 joint venture, whereby IP would purchase a 50-percent equity interest of Ilim Holding. You're currently waiting for approval from the Russian Federal Anti-monopoly Service (FAS) for the JV to move forward. What is the current status of the deal?

At the end of March we applied to FAS for approval of IP's acquisition of a 50-percent stake in Ilim Holding. The approval will be granted either unconditionally, or, if the regulator finds some risk of market domination, the approval may be issued with conditions. We will be seeking approvals from regulatory agencies in a number of other countries also, as recommended by our Russian and U.S. legal counsel. We expect to receive all approvals in the nearest future, and as soon as we have them the deal will be on a fast track for finalization.

Tell us about the joint venture's investment program.

The investment program is an integral component of the JV deal. It is the underlying conceptual component of the transaction, if you wish. Had we not been able to agree on the investment program priorities—which market segments to develop, and where to go for market leadership—this deal would not have been possible. A 50-50 partnership does not mean joining a minority with a majority partner, one having short-term interests and the other a long-range strategic approach. In this case, both parties have a common vision of the company's development strategy.

You've stated that the joint venture plans to invest upwards of US\$ 1.2 billion in the coming years. Could you talk about some of the areas you will target for investment?

There are three main elements in the JV's investment strategy: expansion of market pulp manufacturing, increase in production of white papers for consumer markets, and raising volumes of industrial packaging materials.

In the past, Ilim Pulp developed and positioned itself as a commodity manufacturer. From the historical perspective, that was a logical decision, since the Russian market was relatively underdeveloped. While paper products consumption per capita in the United States is about 230 kg, and Europe is about 183 kg, just eight years ago Russia consumed only 18 kilos per capita. Although Russia has a relatively large population, total consumption volumes remain low. There is no mystery behind this fact: consumption levels are determined by people's income, and low income resulted in low consumption.

Over the past eight years Russians enjoyed substantial income growth. For example, average wages increased almost by a factor of three, from approximately \$120 per month to over \$470 per month now. Therefore, consumption is currently estimated at about 30-35 kg per capita, not to mention explosive



Eye on Production. A control room operator monitors the production process at Ilim's cartonboard and printing mill near St. Petersburg.

growth in demand for industrial packaging materials, which is seven to ten percent annually. Even China isn't experiencing such consumption growth.

Additionally, Russia is undergoing a number of transformations at the macroeconomic level, resulting in the strengthening of the Russian ruble. As a result, moving all our sales into hard-currency markets poses a certain danger to our company. Coupled with moderate inflation and a stronger domestic currency, all these factors could create downward pressure on the company's growth. These developments added impetus to focusing on domestic markets, which will help us hedge foreign-currency risks.

By the opening of 2006, the overall situation became favorable for diverting some exports of Russian pulp and paper products to domestic markets. The only way to achieve this is through expanding manufacturing of products for the retail sector. Besides books and magazines, there are three market niches: tissue—which we don't manufacture yet, white papers and industrial packaging. The last two product categories drive the changes in our product lines and represent two main investment priorities for the JV, taking into consideration rapidly growing opportunities in the Russian market.

Clearly, we are not neglecting any relevant developments outside of Russia. The Chinese market with its continuous growth of market pulp consumption, mainly softwood pulp used for premium paper manufacturing, will remain our primary international market. In this respect, we will be interested in expanding our market pulp manufacturing, including Bleached Chemi-Thermomechanical Pulp (BCTP) manufacturing.

How do you plan to continue Ilim's growth? Greenfield projects? Acquisitions? Expansion projects?

I am not a big supporter of greenfield projects in the Russian forest industries. They're better suited for countries that lack an established pulp and paper industry that don't have a significant foundation to build on. I'd name Brazil, Indonesia, some countries in Asia and South America. In Europe, North America and Canada, I believe that the pulp and paper industry there will grow

through M&A. In terms of costs and benefits and ROI, it's better to build capacity through acquisition of working assets, restructuring, rehabilitation, and addition of new production lines.

Since our industry is very capital intensive, we will try to build upon already existing assets with the exception of such projects, for example, as BCTP manufacturing. However, even this can't be considered to be a pure greenfield project, since we are launching it at an existing site.

Are there businesses that you will develop outside of the joint venture?

Mechanical wood-processing assets will not be transferred to the joint venture. We are actively exploring possibilities for developing this business independently. Given present high transportation costs, these types of products are better aimed at the Russian market. We expect that the domestic market for solid-wood products will grow exponentially, especially in the construction industry and furniture manufacturing. With current growth rates, these market segments are highly attractive for us.

Analysts say that pulp and paper demand in Russia has grown 45% since 2000 and is currently growing annually at 6.5%. However, production capacity in your country is growing at only 1.5 - 3%. What needs to happen in Russia to help balance supply and demand?

Many analysts state that domestic demand for paper products in Russia increased by 45% and continues to grow. However, currently 80 to 90 percent of Russian commodities manufacturers export their products. As a result, with the continued growth of domestic markets, many manufacturers will abandon export markets and switch to supplying domestic customers. We have tremendous capacity in this sector. As far as consumer products are concerned, if this growth continues in the future, as our estimates show, it will be necessary to invest into new manufacturing facilities in Russia that will focus on products for the consumer market, such as white paper, tissue, and packaging materials. As I have already mentioned, that's exactly what we are going to do.

President Putin has declared that his administration intends in the future to treat Pulp and Paper as a strategic natural resource industry similar to Oil and Gas. What do you think that will mean in practice?

Following the President's widely publicized visit to a major mill in Syktyvkar last year, he urged the government to put all the sector reforms and adoption of the new Forest Code on a fast track. Since that pivotal moment, we have seen many positive official steps to improve the investment climate and boost companies' capabilities to produce more value-added timber products for both domestic and international markets.

Could you describe the government's policy in the forest products sector?

There are three main components in government policy in relation to our sector that need to be taken into account. The first

two specifically target development of the forest industries, while the third one is of a more general nature.

The first component deals with the adoption of the Forest Code, which opens a new era in the history of forest utilization in Russia. The Code provides for longer lease terms (currently, minimum lease is 10 years, with a maximum duration of 49). Additionally, the government announced a transition from a tender system of awarding leases to an auction-based system.

The new Code also contains provisions designed to make Russian forestry projects more attractive to investors. For example, an investor willing to undertake a project valued at above 5 billion rubles (USD 193.7 million) can enter into lease agreements without going through an auction. To an extent, this measure will ensure security of raw material supply to such an investor. The law contains several other provisions designed to reduce investor risk.

The second component deals with changes in customs duties and tariffs. It is expected that Russia will impose prohibitive customs duties on exports of softwood and hardwood timber by 2009 and 2011, respectively. The purpose of this measure is quite clear – government policy with regard to our industry is aimed at reducing exports of timber in favor of setting up domestic manufacturing of products with higher value-added



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— Zakhar Smushkin

content. It goes without saying that this measure will have significant impact on the manufacturers, loggers, and our Scandinavian partners, who receive currently up to 20% of their raw logs from Russia. This measure will also impact Russia’s Far East (Amur and Irkutsk regions, Krasnodarsky krai, cities of Vladivostok and Khabarovsk), from which huge volumes of unprocessed timber are exported to China and East Asia. After 2009 this will no longer be possible.

On the other hand, a reverse effect will be observed as well—the more barriers one tries to impose, the stronger is the desire to bypass them and to export these goods illegally. Obviously, these new measures will require additional efforts on behalf of Russian law-enforcement agencies to prevent unauthorized exports of unprocessed logs.

Finally, the third component is the Law on the Investment Fund. The government has announced the creation of special financial instruments and a legislative framework for providing assistance for infrastructure development in the framework of any investment project valued above 5 billion rubles. Investors are invited to apply to specialized government agencies that are being set up under the auspices of the Ministry of Natural Resources, Ministry of Finance and Ministry of Economic Development and Trade, in order to secure the government’s direct involvement in infrastructure development for a given project.

Could you be more specific about government involvement for investors?

Government support can be manifested in a variety of different ways including equity investments, credit and loan guarantees and other ways. Most important is the fact that investor’s infrastructure development burden is either reduced, or the associated costs are reimbursed by the government. So far, there are not too many projects of this kind under development, but there are some, and we are aware that some investors, both domestic and international, are already filing applications to obtain forest lands and infrastructure development assistance.

Are you concerned about over-harvesting of timber due to these incentives?

According to official data, Russia can sustainably harvest approximately 550 million cubic meters annually, while we now harvest only 160 – 170 million cubic meters, meaning that we develop only one-fourth of available resources. Thus, natural losses exceed harvesting volumes. However, the majority of these underdeveloped resources are located in remote areas of the country so, on the one hand, we have these resources, while on the other, they are currently totally inaccessible. We desperately need investments in infrastructure, roads, utilities, power lines, and social services, so that these forests can be transformed from some abstract form of national treasure into tangible assets, and then to tax revenues and ultimately into national wealth.

Will a government stake become politically important in the largest ventures?

This rumor has circulated in the market but there is no basis for it in fact. There is no legislation or rule suggesting that forest enterprises will need to have government participation. The only act that addresses the ownership issue is the recently adopted law that requires international or private domestic investors to seek government approval for purchasing assets or shares in the designated strategic industries. The forest sector has explicitly been excluded from the list of these industries.

Furthermore, there are no large companies in our sector in which the government's stake exceeds 51%. As head of the Advisory Committee for Government Policy and Regulation in the Forestry Sector, under the Ministry of Industry and Energy, I can tell you we're working hard on developing a well-coordinated policy for private-public partnership in the sector to catalyze investment and boost growth of value-added manufacturing capabilities.

We review a lot of investment proposals that seek government funding for infrastructure building, without which many projects would never get off the ground. But the government has not expressed any desire to become a significant stakeholder in the sector. All the reforms that our sector went through in the past year point to government empowerment of private players to be even more effective owners and stewards of our forests. There are no indications that the government could change its position on this matter in the foreseeable future.

Will the government build up "state champions" similar to Rosneft and Gazprom? If not that, what changes do you anticipate will evolve?

The government has never indicated interest in creating a "state champion" in our sector. The major development that can be foreseen is the further integration of Russian forest industries into the global market, as indicated by the trend toward reduction in the overall number of industry players. It is estimated that in the next ten years the ten largest companies will already control over 50% of the market. I believe that in the not-too-distant future the Russian forestry sector will become an integral part of the global industry and marketplace.

Is the Russian government taking an active role in the development of infrastructure to access and transport timber? Or is this being left up to the forest products companies?

With high reliance on rail transport, timber hauling in Russia remains the weakest point in the system. The rail market is practically a monopoly and rates are set by the government. There is talk about possible reforms of the main state-owned rail company, but so far all proposals have focused on separating cargo from passenger traffic, instead of on linking rates with the market.

This situation seriously undermines the attractiveness of our sector—although for pulp and paper products, while transporta-



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tion costs could be significant, they do not consume the entire profit margin. Meanwhile, transportation costs for solid-wood products may account for up to half of the overall production costs, given the geographic scale of our country. Thus, railroad rates are of paramount importance to us since they can effectively limit our market access.

Do you see any relief to the situation in the future?

I believe that the time will come when the government will be able to de-monopolize this industry, although we already have certain tools available to us as we speak. For example, shippers are able to lease and purchase railroad cars, and we are allowed to participate in local discount schemes. We have successfully resolved an issue of railcar shortages and no longer experience these types of problems. However, all of the above does very little to solve this problem on an overall scale, which we are addressing with the government and for which we are hoping to develop a better policy soon.

The Putin Administration has said that it is putting a priority on cracking down on illegal logging activity. How large a problem is it and what is being done about it?

Illegal logging is a serious issue in our country. Even though volumes are not that dramatic in comparison with total harvests,

PRODUCTION – Ilim At A Glance

Founded in 1992, Ilim is the largest forest products company in Russia. The company is among the world's top ten companies in output of market pulp and ranks sixth internationally and third in Europe in timber reserves and logging volumes.

Ilim operates four of Russia's largest paper and pulp mills across the Northwest region and Siberia: Kotlas Pulp and Paper Mill, Bratsk Pulp and Containerboard Mill, Ust-Ilimsk Pulp Mill, and St. Petersburg Cartonboard and Printing Mill.

The company employs 38,000 people and had sales in excess of \$1.6 billion in 2006.

KOTLAS PULP AND PAPER MILL

(Koryazhma, Arkhangelsk Region)

Acquired: 1994

Products: Bleached hardwood kraft pulp and dissolving pulp, kraftliner, fluting, offset paper, bag paper, paper sacks, hanging stock, wood chemistry and biochemistry products (14% of domestically manufactured market pulp, 11% of all paperboard, and 6% of total paper products)

Markets: 65% of the mill's output is exported to Europe, the Middle East and North America

Capacity: 1,000,000 tpy of pulp and 255,000 tpy of containerboard

Personnel: 3,600 employees

BRATSK PULP AND CONTAINERBOARD MILL

(Bratsk, Irkutsk Region)

Acquired: 1997

Products: Bleached softwood and hardwood kraft pulp, unbleached pulp, kraftliner, wood chemistry and chlorine products (20% of domestically manufactured market pulp and 8% of total board)

Markets: 80% of the mill's total exported products shipped to China and Southeast Asia

Capacity: 718,000 tpy of pulp

Personnel: 2,800 employees

UST-ILIMSK PULP MILL

(Ust-Ilimsk, Irkutsk Region)

Acquired: 2002

Products: Bleached softwood kraft pulp, unbleached hardwood pulp, unbleached pressed pulp, wood chemistry and biochemistry products (accounts for 25% of Russia's market pulp output)

Markets: Exports 90% of its bleached pulp output to Asian and European markets, including Germany, Italy, the UK, Greece, China, Korea, Japan and Tunisia

Capacity: 630,000 tpy of pulp

Personnel: 1,700 employees

ST. PETERSBURG CARTONBOARD AND PRINTING MILL

(Kommunar, Leningrad Region)

Acquired: 1996

Products: Chromo board, matchbox board, liner board, test liner, a wide range of printed products, including box and package blanks with multicolor print, lacquer and one-, two-, three-, four, and six-point glue bond, laminated board, disposable plates, paper stationary products (accounts for 50% of Russia's domestic output of coated and uncoated boxboard, chipboard and multi-color packaging)

Markets: Russian domestic market

Capacity: 230,000 tpy of cartonboard and 50 tpy of printed products

Personnel: 1,500 employees

Note: Ilim co-owns the mill with Knauf (Germany) and holds a controlling stake.

in addition to adverse environmental consequences, they significantly damage legitimate business operators. Illegitimately harvested timber is sold almost at cost, driving down the price for market participants who observe the regulations.

What's being done about it?

The government is implementing a number of measures that make it hard for illegitimate logging 'entrepreneurs' to continue their operations. Sustainable and more responsible forest management practices are enforced on the federal and regional levels. We are supportive of these initiatives and believe that in the past couple of years they significantly brought down volumes of illegal logging and exports.

Does Ilim have a mission statement, so to speak?

Ilim is Russia's largest manufacturer of pulp and paper products, and as any other industry leader it is looked at as an example for other companies. That is why we consider all our business and all other decisions, especially those that have socio-economic and environmental impact, extremely thoroughly.

Our company, based on its quality standards, diversity of its product line, customer-care standards, and social and fiscal responsibility, is rightfully taken as the standard to be followed.

It has always been our top priority to manage our national renewable forest resources to the maximum benefit of our nation and future generations, by manufacturing goods of the highest quality, taking good care of our employees, giving back to the communities in which we operate, and preserving the riches of our forests that hold much cultural and historic significance for our nation.

In light of the upcoming deal with International Paper, we believe that when the joint venture is finalized it will be a breakthrough of sorts, a test of a model that can be followed by many Russian industries – a model based on building successful partnerships with world leaders in the corresponding industry.

The environment (chain of custody, sustainable forestry practices, etc.) has taken center stage here in the U.S., as it has in other parts of the world. What is Ilim doing to assure its customers and global observers environmental compliance standards are being met in its manufacturing chain?

There are, of course, certain internationally recognized standards attesting to a company's compliance with the rules and requirements of sustainable forestry management and industrial safety. We were among the first companies in the Russian pulp and paper industry to start ISO certification of our facilities, and currently all of our pulp and paper plants hold quality, environmental and occupational safety certificates.

We are recognized as the nation's leader in sustainable forest utilization and supply-chain management. Over 4 million hectares of forest lands operated by our company are certified to be in compliance with the FSC requirements.

We were also among the first in the industry to switch a large plant to elementary chlorine-free pulp manufacturing. And last year we completed the certification requirements at our Kotlas mill and started manufacturing pulp and paper products with the FSC seal of compliance. The next facility to receive this certificate will be the Bratsk mill, where all certification conditions have already been met.

It goes without saying that upon the formation of the joint venture we will continue our adherence to all of the international environmental standards, as well as the standards established by the Russian Federation, some of which are even more stringent.

Beyond pulp and paper manufacturing, how does Ilim interact with the surrounding communities where its facilities are situated?

All of our mills are the main industrial enterprises of the cities in which they are located. This fact creates an additional layer of responsibility to both our own personnel and the local communities. Since the company employs over 38,000 people, the majority of social services are provided by the company. We have always been dedicated supporters of local educational and health-care programs, understanding that this is the only way to ensure a stable future for our company.

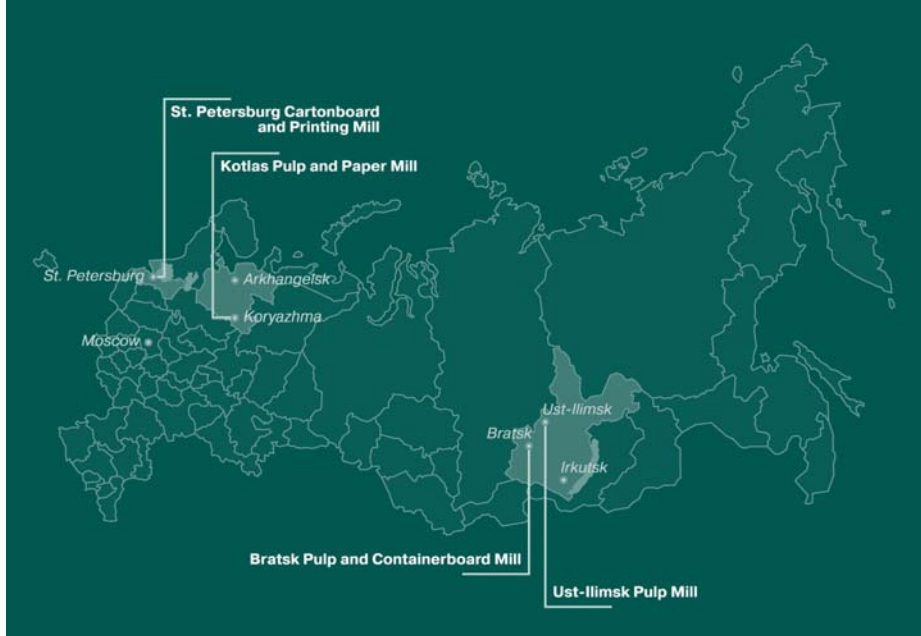
We have established what we call socio-economic partnerships with the local governments of Arkhangelsk and Irkutsk regions. These agreements set out the basic principles of our many contributions to the social sphere. We always place the main emphasis on those programs that are essential for comprehensive development of a particular region. To name a few, such programs included construction of a hospital in Koryazhma, installation of modern equipment at the town's maternity ward, support for building and equipping new schools, renovation of nursery schools, local road construction, etc.

In addition to ongoing partnership agreements in the social sphere, we have established a special charitable fund called Ilim Garant. Through it we are introducing a systematic and unified approach to how we single out and undertake priority social projects. The fund has branches in every region where we operate. We make a lot of effort to have representatives of local governments and social organizations participate in the Fund's decision-making to ensure that our programs address the real needs of the local populations.

Tell us about Ilim's Corporate University.

We always believed that the success of our business and realization of our internal potential for innovation and growth could be achieved only with participation and support from the company's employees on all levels—from the top managers to line-workers.

Our Corporate University was created with a vision to actively involve our employees in the process of making our company



Long Distance. One of the challenges Russia's forest products industry faces is transporting men, machinery and product over vast distances and at times through harsh conditions.

better, as well as to identify and foster our company's best talents.

The first three programs introduced at the University—Directors and Shareholders, Corporate Entrepreneur, and TOP-100—remain the backbone of the University curriculum. As our goals and needs evolve over time, we introduce new training modules.

The first class for the TOP-100 training program was formed in 2004. The program was offered to one hundred of the most promising managers—those who had substantial growth potential.

The Corporate Entrepreneur program is aimed at young employees with proven leadership skills and demonstrated ability to evaluate the ever-changing business environment and think 'outside the box.' We hope that in a few years these graduates will form our new top management team.

The Directors and Shareholders program occupies a very special place in the curriculum and serves as a cornerstone in the entire training process. It is critical for owners and top-tier managers to maintain an open dialogue for addressing important issues and developing informed decisions related to corporate strategy and governance.

Where do you see Ilim Pulp five years from now?

Our primary business strategy is focused on the creation of the joint venture. These efforts will result in the establishment of a new international corporation, which will employ Russian, American and other international specialists. We are actively pursuing our investment program aimed at increasing the company's rate of return by a factor of 2 or 3, thus making Ilim Pulp the world's leader in terms of return on capital among pulp and paper manufacturers. This is our primary objective, and if these goals are achieved we will know that the choices and decisions made along the way were the right ones. ■