

Stora Enso  
Q3 2005 Earnings Conference Call  
October 27, 2005  
9:00 A.M.

**OPERATOR:**

Good afternoon ladies and gentlemen and welcome to today's Stora Enso Q3 Financial Results 2005 conference call. For your information this conference is being recorded. After the presentation there will be a question-answer session at which point you will have the opportunity to ask questions. I'd now like to hand the call over to your host today, Mr Jukka Härmälä, Chief Executive Officer. Please go ahead sir.

**Jukka Härmälä, CEO:**

Well good afternoon everybody, this is Jukka Härmälä speaking and I'm very sorry we are starting this conference a little bit late. We still seem to have a problem, hopefully you will hear me, the technical equipment doesn't seem to work too well.

*[Jukka Härmälä and operator confirming equipment working properly]*

**Jukka Härmälä, CEO:**

Okay, so once again, welcome to join us today. Here with me I have Hannu Ryöppönen, our CFO since the beginning of September and we are going now into today's messages, consisting of three different elements, our Q3 Results and related Market Outlook, then our Profit 2007 Programme and then the last being this Asset Performance Review we've been publishing today as well. So let's first start with the financial results and Hannu, please take the floor.

**Hannu Ryöppönen, CFO:**

Thank you. Good afternoon and maybe good morning to somebody on the East Coast of the US if you are with us. Q3 has been a difficult quarter for us in many ways and we also know that there were some comments about coming in fairly below consensus. We had a difficult decision to make in this respect as when we saw where the results were heading, we also saw the new programmes we were coming out with today and in fact the comments we have received is that something it was a good thing to wait given the fact that these are quite substantial in our opinion anyway and there would have been two sorts of guidance within a matter of a couple of weeks. So the conclusion was to do it all in one go.

And the Q3 as you have seen earlier today came in at an operating profit of €106 million and we have we think the best comparison to this is the third quarter of 2004 which accounted for in the same way would have been €139 million. On the actual price expectations, so Jukka will comment in a few minutes, but suffice to say when you look at these results we keep in mind our guidance from before which we see as being correct and we had a €40 million impact deal from the labour dispute in the third quarter and also given the new arrangements around stoppages a further €20 million of stoppage time that we see as related to the fact that there was no mid-summer stoppage this year and we are having had a lot of those during September. Also the €10 million elimination item related to our share incentive schemes is also a component in reaching an operating profit of €106.

If we then look at our financial items, we have a slight increase in our interest expense which is primarily related to the Schneidersöhne acquisition and closing of that transaction at the beginning of September, also the rebuilding of our working capital or primarily inventory, as well as other impacts from the Schneidersöhne comes into having a total effect on the interest expense with about €3.5 million or so. On the evaluation of financial instruments we have a fairly significant movement. This has again, primarily resulted from the option programme hedging that is reported in this fashion.

The next slide, I'm on slide 8 just to follow up that we are all on the same slide. We are seeing operating profits by quarter starting with Q3 in '03 and in particularly the revenue we have had before a strong first quarter, a weak second quarter due to mid-summer stoppage, again strong third and a weak fourth quarter due to Christmas stoppages. That pattern will change starting now with the fourth quarter this year and hence we are also guiding that our fourth quarter for this year will exceed the third quarter of the year. And this is a new pattern and we will also see next year, obviously that the quarters will from that point of view become more even in the result performance.

To summarise overall, I'm not going to go through all the numbers, I would like to highlight a couple of lines. If I look at the EBITDA line where we had a €389 million result in the third quarter '05, if I compare it reasonably well from a cash flow perspective also to last year, obviously the second quarter this year was quite special. The other one then related to that is the cash earnings per share or CEPS where also the third quarter 0.44 is quite comparable and a good number in that respect, obviously not a satisfactory number on the long term perspective.

The debt to equity, the last line where we are now reaching a ratio of 0.62 is a result of the Schneidersöhne in particular and increased debt and as we also talked about the interest expense, that's another aspect of that.

The next slide, slide 10 the Share Buyback Programme and see that from the authorisation we have now on our share side grown back around 37.3% for the year and so there is more still under the authorisation that can be done. The average price around €10.60 level, a share is obviously a fairly small buyback. And then I would like to hand back to Jukka for the market comments.

**Jukka Härmälä, CEO:**

Okay, here we have the traditional arrow pictures and let me first start with a little bit more general remark. The global demand has been modest so far this year, however, seasonal demand will result in improved operating rates for the industry in the coming months. In Europe deliveries were still affected by the Finnish Labour Dispute but activities start to pick up as customers replenish their inventories. Also we see exports recovered from the previous quarter but we are still on a lower level. So exactly what Hannu was saying about the financial performance, the market is this time a little bit different from any experience we've had in the past.

Let me now go to various geographies and I'll first start with Europe. First newsprint. The European demand for newsprint has been moderate and the market development in the third quarter was actually quite positive. The main drivers have been free newspapers and new newspaper performance rather than traditional newspapers. The short term outlook is quite positive due to favourable demand prospects and capacity closures. Prices are anticipated to improve early next year when we are negotiating the annual contracts.

Magazine paper, after a weak first half European magazine paper demand recovered in the third quarter and order inflow has been strong, both in coated and uncoated paper. However total deliveries in SC are somewhat lower than in the same period a year ago. European prices are forecast to remain stable for the rest of the year and are anticipated to improve early next year as well.

European coated fine paper demand was above last year's level after nine months, orders are expected to remain on a healthy level and mill stocks are normal and merchant stocks are at long term average. Prices were stable in the third quarter and are also expected to remain so in the last quarter of the year. Demand in Western Europe for uncoated fine paper has developed well, both mill and merchant stocks are normal and order books better than long term average, exactly as of now. The announced price increase in standard coated paper has mostly been achieved in Europe and a further price improvement is anticipated in the beginning of next year, a standard copy we have to remember its only part of the total pallet we have.

Let me then turn to US. Magazine, the demand has been strong for SC but weaker for

coated paper, partly due to the supply constraints resulting from disputes in Canada and Finland. Some price increases were achieved in the third quarter. Markets are expected to remain firm for the rest of the year and the price increase of say \$25 has been announced for magazine paper for November. Let's see how it then materialises. And for coated fine paper the market has improved and demand outlook for the rest of the year is cautiously positive, I would say. Mill stocks have been tending down from the high level reached earlier this year and here again a price increase of \$25 (this is US dollars I'm talking about now in both cases) has been announced for reels for November. Seasonal prices are expected to remain steady during the rest of the year.

And then jumping back to packaging board for the whole company where we can say demand was firm in most of the packaging grades and some price increases have been implemented in consumer board and speciality papers. The outlook is expected to remain stable with good order books in most grades. Some price improvements are expected in carton board. And then wood products the outlook for construction, there are new products in the main market remain fairly positive. However, high raw material costs are depressing profitability especially with the capacity in Finland. Supply pressure to the market demand, especially from Sweden and increasing also from Central Europe. And finally a comment about Asia, the Asian fine paper demand has been stable but prices are eroding as more capacity in the regions is actually starting up. This is pretty much the way we now describe the market, cautiously positive for the demand, partly because of the seasonal effects and then strongly looking for price increases for some products the beginning of next year.

Now let's go further on and I'll give the word back to Hannu on this Profit 2007.

**Hannu Ryöppönen, CFO:**

Thank you, Jukka. As announced before we were going to come back today with more details of the so-called profit 2007 programme where we have announced around €300 million of savings for 2007 and we have here more details on slide 14, on the breakdown of this and before I go into the actual breakdown, I'd just like to highlight one, I feel important component that is the fact that this €300 million is based on the 2005 internal assumptions and working we have done, not necessarily in 2007 numbers per se, but it's a constant €300 million in that respect.

Anyway, so we have three major components here: production costs, which represents the biggest part 53% of the total of €160 million; support and administration costs to the tune of €120 million or 40% of the €300 million and then sales and production mix improvement €20 million or 7% of the total. Also you can see that we practically are touching all parts of the organisation both in the production line, as well as first of all input costs. This is not so much a question of reducing costs in negotiations, it's more how we structurally either

purchase differently in combining values for instance or to other methods. The same goes for maintenance costs and so on.

Shared services then if we move to support and administration costs, is a key internal drive right now to maximise the use of certain competencies and certain centres for the entire organisation. And from a timing perspective the biggest portion of this will be materialised during the second part of 2006, first part of 2007 and our intention is that starting with the second quarter of 2006 we will on a quarterly basis provide updates on the progress over the programme which is already started and under implementation. Another component of this programme, in slide 16 is the personnel reduction where we have estimated a total reduction of 2,000 persons will happen in Europe, out of which half in Nordic countries and in the second half in the rest of Europe. It's also a 50/50 split between blue and white collar workers in the total context.

The primary way this will happen is through early retirement and pension arrangements, but some redundancies are probably also unavoidable and we here have obviously all the union negotiations and other aspects to totally finalise and therefore we cannot today give a number on the provisions of this either. It is however important to note that the €300 million is net of the costs that we actually will incur in order to achieve that €300 million savings. And in addition to the 2,000 there is a 6-700 person potential for outsourcing which is primarily related to Finland and the new opportunities that have been given in the new labour contracts that were finalised in the middle of the summer. So this is 2,000 people are on the Profit 2007 programme as one number to have and then the outsourcing also related here and in terms of the project about 6-700 persons of outsourcing potential.

And then I'll hand back to Jukka for the Asset Performance Review.

**Jukka Härmälä, CEO:**

Thank you, Hannu. Let me then quickly go through the APR (Asset Performance Review) and the summary we have here today consists of three different categories of actions. First, four mills which we have planned to close depending on the local negotiations with the unions and other requirements; second, the divestments of six units and then the third being four mills which have been put under a critical review as to their future performance.

You have seen the main numbers, only to start with the four mills planned to be closed. They are a unit where we definitely don't see too much of any other possibilities and here we are talking about, only about 400,000 tonnes and an increase in EBIT, only €10 million. On the other hand working capital released would be in the range of €30 million. We are going to make a provision for the fourth quarter amounting to about €300 million out of which €50 million will have a cash impact, either this year or next year. We're talking about

700 people or so.

Then the six unit category is actually a variety of various types of units we are studying and have been studying the divestment possibilities. There are some well performing units which we don't think for strategic reasons would actually belong to the Group. I'll only pick out one element here, Celbi pulp mill in Portugal making nice returns on the other hand with the performance and all the progress we have made in South America it's our intention to release money from this mill and further invest in Latin America. And the other example being Grycksbo mill which according to the earlier announcement, a special grade mill making money and we are in the middle of the process of seeing whether there might be a good buyer for it. So a variety of various types of elements.

And then finally these four mills which have been put under a Special Review they are fairly big sized mills where the total headcount is about 2,000 people and we have given one year time for the final decision to be made on each of these mills, mainly concentrating in SC qualities and woodfree, critical products as to the returns as such. All in all this list of four is a question of more than one million tonnes.

As a summary for the story today, I can only add that at the same time we are definitely focusing on the long term competitiveness would continue investing in our core assets, also in Europe. We do have some very well performing assets, something we really want to see going further ahead. And at the same time according to the earlier published strategy the new markets are of our special interest, Latin America, Asia and also Russia.

Well now we are coming to an end of this story and we've got a lot of disturbances on the line. I hope you have been able to listen to our story. We are a little bit uncertain here unfortunately. Now operator it would be time for questions.

Q&A.

**OPERATOR:**

Thank you Mr. Härmälä. The question-answer session will be conducted electronically. If you would like to ask a question, please do so by pressing the \* key followed by the digit 1 on your telephone keypad. If you're using a phone with a mute function, please make sure your mute function is turned off to allow your signal to reach our equipment. We will proceed in the order that you signal us and we'll take as many questions as time permits. Once again, please press \*1 on your touchtone telephone to ask a question. If you find that your question has been answered, you may remove yourself by pressing \*2. We'll pause for just a moment to give everyone an opportunity to signal for questions. We will take our first question from Eshan Toorabally of Goldman Sachs. Please go ahead.

Tim Cahill: Hey, it's Tim Cahill here from Goldman Sachs. My first question is in relation to magazine paper, please. First of all I suppose my question is in relation to demand, post the strikes and if we assume that inventory levels were actually quite low coming into this period and we assume the demand has been quite strong, why have we not seen any price increases yet.

Jukka Härmälä: Well your conclusion out of the situation is certainly correct, in other words the utilisation of capacity was pretty much down earlier in the year and now after the strike, especially August/September we've been running pretty much, you can say flat out. The question of price increases, we have had some marginal ones but the bulk of this business is still based on contracts in a way that it doesn't really allow anything that would be seen in the bottom line, as of yet. We hope we are able to go further for the beginning of next year.

Tim Cahill: What scale of magnitude would you be hoping for?

Jukka Härmälä: Could you repeat please?

Tim Cahill: Sorry, what scale of price increase would you be hoping for? Like how much per tonne.

Jukka Härmälä: These numbers we never disclose.

Tim Cahill: Would it be possible to tell us whether customers have actually managed to build up their inventories again or do inventories remain at very low levels?

Jukka Härmälä: The inventories have been actually in a way normal I think, that's more or less where we are as of today.

Tim Cahill: Okay, then some of my other questions are to do with first of all with your machine closures. I mean you guys are closing two relatively small machines, so it seems to me that the machines which have already been announced to be shut will have a relatively limited impact in terms of the overall European capacity. The machines which are being divested, first of all can you tell us why maybe some of these paper machines weren't shut?

Jukka Härmälä: You make a reference especially to what?

Tim Cahill: Well I mean I suppose I'm making reference to maybe some of the smaller machines which you are looking to divest and so basically the capacity still remains in the

market. Maybe for the overall business it may have made more sense to close some of these machines rather than looking at the short term cash gain.

Jukka Härmälä: When closing down a machine, is of course more costly in the short term than finding a buyer and the main philosophy, generally speaking here is not to really something out to the market that will continue to compete with us. So the grades we are talking about here when it comes to the divestment and I fully admit we are talking about in the first place now about fairly small capacity.

Take an example of Wolfscheck mill, the SC production of the mill is something we will not sell, it has to be changed into the other paper grades which are then not competing with the company. Then if you take this Pankakoski mill, a small Finnish packaging board mill which special grades again not competing with the rest of the company, and therefore it would a prudent way of looking for a buyer who is interested in some very small specialities.

Grycksbo, the one we announced already earlier for a potential divestment money making mill with some special grade from the strategy point of view we are willing to quit those and continue with the main streamline of woodfree and therefore it's a much more better way to look for a buyer for these grades. This is pretty much the philosophy whereas Corbehem the planned closure for LWC is certainly a quality we want to stay in and here we don't find any other way or reasonable way of going forward but to close down those machines.

Tim Cahill: Okay, thank you for going through that. My last question is to do with the four mills which are currently under scrutiny because as you mentioned these obviously are very large mills and the future of these mills could end up having quite a large impact on I suppose the industry dynamic. In terms of the future of these mills, do you have any idea yet whether these mills are more likely to be sold versus shut, I just – I understand that its very early in the process but if we got some indication it may give us a better idea of what to expect for the coming 12-18 months or so.

Jukka Härmälä: Well these do have a fairly sizeable capacity, like I said, well over one million tonnes sold together and in the whole value chain, what to do, what to change and so far it's a much more complex issue and therefore the likelihood of what the outcome is like you say, a little bit too early to comment on. We are and have been working on this issue for quite some time, we are going to come back to this at a later stage.

Tim Cahill: Okay, thank you very much.

**OPERATOR:**

We will take our next question from Myles Allsop of UBS. Please go ahead sir.

Myles Allsop: Hi, thanks. Just a few other questions on the Asset Review first. You were saying that these four mills that you're looking to that you've kind of put under review, when do you think, in a years times you'll make a decision, is that sort of you're going to give them one more year before you actually decide whether to keep them or sell them or divest them or shut them, sorry. Is that the way we should understand that.

Jukka Härmälä: Well we don't certainly want to wait a whole year and then only start looking at them. It's on an ongoing process and it would be mere speculation to add anything on top of what has been said so far. That's the way we are working.

Myles Allsop: Then it's more within a year as opposed to in a year's time.

Jukka Härmälä: Well that's what we say.

Myles Allsop: Yes, and it sounds as if – what is the profitability of those four mills at the moment. How much EBIT are they making?

Hannu Ryöppönen: The profitability. I would say that it's fairly marginal and therefore obviously also a profitability issue as to the long term viability as they are operating today.

Myles Allsop: Okay, and with the closures, what sort of time should we expect for these like Corbehem to be shut?

Hannu Ryöppönen: I think what we aim for, if I may comment here on the closures that this is a 12 possibly 18 month process to close as there are always a number of aspects starting with the employment issues and union contract negotiations etc and we need to go through in a formal way and make sure we do the right things for our employees and also to ensure the final conclusions on the proposed planned closures we are talking about here. But its 12-18 months just to summarise, 12-18 months frame.

Myles Allsop: So that's being done. Okay and then in terms of Kvarnsveden, can you give me the quick update on the new machine, sort of our [focused] this is starting up? And also on the [PM 9] now so that one is going to be closed as well?

Jukka Härmälä: Well the new machine is about to come on stream in a couple of weeks time if I remember it correctly and all the things we have actually said around it are still

valid. This [PM 9] closure it was in June and doesn't vary from the initial plan which was announced.

Myles Allsop: And have you pre-sold any of the incremental volume from the new machines? Or how are you trying to introduce that in to the market?

Jukka Härmälä: Well certainly when a machine of this size is actually coming out to the market place there are a lot of preparations made for the marketing, I don't want to be very specific – at all specific on these issues. It follows exactly the normal way of a big machine coming on stream bearing in mind the closing down of capacity we've done along this project.

Myles Allsop: And just finally as well in terms of the cost inflation you're seeing, could you give us an idea as to how much energy costs are likely to go up next year and chemicals cost and distribution costs?

Hannu Ryöppönen: Yes we can give you some input here, we are as we do always this time of the year working on our budget for 2006 and we would hope at some point later give you more guidance around details of as you say both energy, chemicals, transportation and the wood side and so on. I think where I could give you an indication right now is on the energy side where our total bill today is just under €1 billion and we see now that that was slightly to increase from 2005 to 2006 in the range of 10 to 15% and that's about all we feel comfortable with as we are in the process of still reviewing how – also the profit 2007 impact and all of that will come on stream as we move into 2006.

Myles Allsop: Okay thanks.

**OPERATOR:**

From Citigroup we have a question from Thomas Brodin, please go ahead.

Thomas Brodin: Yes I have three questions, first one if you could be a little bit more specific on the closures of Corbehem and Varkaus because I guess you're doing this to help out the market partly and maybe because they're not that profitable and so it's important to maybe get them out of the system and as well help out the balance of the market so if you can give a little bit more specific guidance? I understand that you need to do negotiations but just a realistic guess on when these machines could be going down? That's the first question.

Jukka Härmälä: Well this kind of a guessing we don't want to do, we would not even be allowed to do. We really have to follow the orderly way of going forward but after the plan

introduced today this process will start we are able to make a more specific comment only at a later stage once we are well done with the process.

Hannu Ryöppönen: Thomas just one comment because you mentioned Berghuizer as well that is under scrutiny list right now and not subject to closure, but I thought we mention that one just to make clear that that is not a decision today.

Jukka Härmälä: No, he said Corbehem.

Hannu Ryöppönen: I think he said Corbehem and Berghuizer.

Thomas Brodin: And could this be closer so you're saying that it could potentially drag out in time and take over a year?

Jukka Härmälä: I don't want to speculate. It's a very sensitive issue.

Thomas Brodin: Right but you have been closing down in Corbehem before?

Hannu Ryöppönen: Yes we have.

Thomas Brodin: You have some kind of experience I guess.

Hannu Ryöppönen: We have to keep in mind, we announced this to the unions last night late so we have to have our negotiations and discussions with them, once we have that guidance I think we can feel more comfortable but speculating at this time would not be very wise.

Thomas Brodin: Okay and then I mention Varkaus in Finland that's what I was referring to, maybe my pronunciation wasn't that good but is that easier to quantify that?

Jukka Härmälä: I think I gave the answer on Varkaus at the same time, this Varkaus number one being the coated fine old machine as you may know and being really under surveillance for quite some time.

Thomas Brodin: Okay so that's quick. Now next question on the choice of closing down of capacity and now when we're you bringing significant amount on new SC capacity when you announced the new Kvarnsveden machine a few years ago you said that if that the market was not in balance you would close down enough capacity to balance the market. Do you judge that after the start up of this machine that the SC paper market is in strong balance?

Jukka Härmälä: What we have said is still valid and to your particular question my answer is no.

Thomas Brodin: And why then LWC instead of SC in terms of closures, why not Reisholz for instance?

Jukka Härmälä: Well if you read the whole announcement we have had today it includes elements of SC for the future as well.

Thomas Brodin: But you don't think it is pressing to do it right now, because if you're scrutinising that for the coming year and it takes another year before you potentially could close it down then it's a couple of years out?

Jukka Härmälä: We'll be back on this issue – we do definitely have more thoughts around this.

Thomas Brodin: Okay and then a final question on Celbi. You said that it was a profitable mill. Can you give some kind of idea of return on capital, margins, any kind of guidance to us?

Jukka Härmälä: We don't give it to any single one mill but looking at what the South American's and including our own experience now out of Veracel the numbers down south down there they are much higher.

Thomas Brodin: Okay thank you.

**OPERATOR:**

We have a question from Lars Kjellberg of Credit Suisse First Boston, please go ahead.

Lars Kjellberg: Yeah hi. Most of my questions have been answered. Just one thing regarding the results, fine paper was particularly weak. You've had a fairly large inventory built in the quarter and yet you still delivered a loss. Could you elaborate a bit why that number was so weak?

Jukka Härmälä: Well we've had a lot of problems in that business pretty much an in-house type of issues of various types. Compulsory maintenance stoppages and then getting them back on stream some of the biggest mills we have not really been very successful here and of course this is an area where we can say that the disappointment is probably at its biggest. Hopefully we come back to something more normal during Q4, that's how it stays.

Lars Kjellberg: If you look on your particular inventory situation you said it's kind of been normalised and now you're looking forward to being able to run over Christmas where you normally have a big inventory draw down. How do you think this is going to play out going into 2006 in your inventories? Will they be above where they normally are towards the end of December, will they be somehow normalised i.e. that you're taking downtime but not necessarily over Christmas? How's that going to work out?

Jukka Härmälä: Well the whole rule of the game is a little bit something we are within the borders of Finland inexperienced about and this latter half of 2006 especially where the one we entered with complex out in the market actually has made the good planning of what to do, how to do a little bit more complicated than probably what we were expecting initially. In the future this maintenance stoppages, they are of course spread throughout the year, well planned in advance now we were a little bit in a situation where it was a must. Looking at the Christmas time now the biggest part of our capacity in Finland will be running not all but the bulk of it and now when it comes to the inventory levels for fine paper in Europe we can say that the inventory levels both at mills and merchants it has turned back to something we can call average. That goes both for coated and uncoated fine not stopping for Christmas it's not here a very crucial element. I think we are able to control these inventories now in a much better way without this full stop, full go type of an approach.

Lars Kjellberg: Okay and coming back to cost cutting programmes that you obviously have mentioned the potential for outsourcing which I guess is not included in the 300 million, do you dare to even venture a guess on what kind of potential cost savings you will get from outsourcing activities?

Hannu Ryöppönen: It's way too early to really have a very good feel for that because it's also subject to union negotiations in accordance with the new contract but we see the potential in doing it at that magnitude and we won't to give a number on it at this point.

Jukka Härmälä: You have seen here and there especially in the local newspapers some headlines about outsourcing going further but even at the level of group for Finland we don't have a full picture yet as of today. They are really done on a local basis. We will have a summary of these issues also at a later stage.

Lars Kjellberg: A final question, when it comes to the 2,000 people that will be let go at some stage, what kind of restructuring or redundancy cost do you expect to have to charge your accounts over the next year or two?

Hannu Ryöppönen: Related to the profit 2007?

Lars Kjellberg: Right.

Hannu Ryöppönen: Well we are not going to give those out partly there's still as they are personnel related most of them they are the negotiations discussions still open on most of that and secondly what we want to point out is that 300 is met of those costs.

Lars Kjellberg: Okay. Alright. Thank you.

**OPERATOR:**

We have a question from Mr. Mathias Carlson of Deutsche Bank. Please go ahead sir.

Mathias Carlson: Thank you hi gentlemen, most of my questions have also been answered but I wanted to ask you how is the Veracel impacting your P&L now?

Jukka Härmälä: Well we are having a very short period of really running it by the way it is running more than well which is of course a very pleasing issue but for this very quarter the impact is still rather limited. We have explained earlier how this is going to be recorded and our share of the total, out of 50% of the production belongs to us and the margin mainly is going to be then left with our partner for the region but for this very quarter it was still a thing of this number what they're talking about being the very start up period.

Mathias Carlson: ay thank you. And also a question regarding – when you dismantled/close these machines that you are planning what will do with them? Will you turn them into scrap steel or is a potential to sell them to another region?

Jukka Härmälä: Well the ones that we have now on the lists for planned closures Varkaus as an example well you don't do anything with the machine, it won't be sold. Whether it's dismantled, we don't know yet. Generally speaking when it comes to our policy we have not been selling the old capacity. One particular machine second hand from our point of view now is the old Maxau machine which is part of project we have go into China for but then it stays within the group so by and large this has been our policy but certainly it has not yet been time to look at the possibilities. I would say the policy would be valid.

Hannu Ryöppönen: Maybe as an additional comment there, it is valid to the whole announcement of the two programmes is that is has been announced today and obviously at a very, very early stage given the fact that there are employees whose commercial issues and other issues that need to be still totally finalised so the detailed plans of the actions are still at an extremely sketchy and early level.

Mathias Carlson: Okay could I just have one more question for share buybacks now going forward you've been buying quite aggressively at the low teens here. Are you planning to continue to buyback shares towards the end of the year?

Hannu Ryöppönen: We will review this as you have also probably noticed that there is a 300 million provision coming into the fourth quarter based on our estimate right now that will obviously impact our full year results and that can make us change our view on the aggressiveness of the buyback programme. We don't see right now a complete stoppage of it, as I said the conclusion for the moment.

Mathias Carlson: Okay thank you very much.

**OPERATOR:**

From Enskilda Securities we have a question from Mr. Richard Nilsson. Please go ahead sir.

Richard Nilsson: Good afternoon, two questions on your €300 million provision in the fourth quarter, could you elaborate on how large possible write downs could be and if the whole €300 million is tax deductible?

Hannu Ryöppönen: The tax effect for this one is somewhere in the mid teens off on the 300 million and as we said 50 million of it is cash impact i.e. clearly cost related in many ways, the other ones are more or less then write down related expenses.

Richard Nilsson: Great. Also could you update please on bond share, you're talking about the conversion away from SC paper production, I think it's about 90,000 tons or so. Has that already happened or is it due to happen or has there been set for certain dates for that?

Jukka Härmälä: We have been planning this [unclear] for quite some time and it has actually to do with the question which was expressed here earlier when Kvarnsveden is coming on stream this was to be one of the flexible elements of our SC palette and like said this typically is not anything we want to see staying out in the market place.

Richard Nilsson: So is it producing a few papers still today or...?

Jukka Härmälä: We have been looking at this so it's not a starting point exactly as of today but as of today we are not willing to make any further disclosure on this.

Richard Nilsson: Okay and then just finally the last question on if you could give us, is it possible to give a timeframe for the decision to expand Veracel further?

Jukka Härmälä: Well no official decision has yet been taken but there is a good understanding between the shareholders, i.e. Aracruz and ourselves that as the project was a very successful one both when it comes to the construction and also how the start-up has been materialising so the way to go forward is definitely on the agenda in the near future and the most concrete way to actually take action is to continue to buy land for this very purpose. On the other hand the forest, the plantations which do exist for Veracel 1 as the growth has been higher than initially anticipated there is going to be some excess wood compared to what Veracel 1 is actually consuming so let's hope we are able to take the step forward in the near future like said.

Richard Nilsson: Great, thank you very much.

**OPERATOR:**

We have a question from Johan Swahn of Handelsbanken. Please go ahead.

Johan Swahn: Yes good afternoon I have two very quick questions, first on this price increase that you're talking about the year end for publication paper where do you have the strongest sort of conviction or where do you see the strongest market in magazine, newsprint, SC or LWC? That's the one question and the other was regarding this one off type cost that you had in the third quarter, €70 million can you say something about in which divisions these costs were?

Jukka Härmälä: Well we're going to the publication paper grade I think the – currently the strongest situation that we have actually in newsprint where the supply/demand balance is rather good and the Autumn of the coated and uncoated magazine, like you said before, have been fairly strong so in both grades hopefully we are able to take steps forward as pricing is concerned. It's not exactly the time to be able to say anything further, we'll see.

Hannu Ryöppönen: Just checking you talked about the non-recurring in Q3 items 04 is that right?

Johan Swahn: No I was talking about this one off type cost that you were mentioning the 40 million

Hannu Ryöppönen: Yes that's right. No then I understood you correctly. First of the 10 relating to the payment incentive schemes that is obviously a corporate cost as such and then you have the issue of the non-cash the 20 of the maintenance that is spread through

the mills mostly and in Finish I would say if anything probably more on the fine than anything else but roughly that and then the 40 which is the still aftermath of the strike during this quarter. We do not really specify it and would not really want to specify it externally on any further allocated basis.

Johan Swahn: All right thank you if I might add one more question on the merchant side it was also quite a small loss there, do you see a turnaround for that business in the near future?

Jukka Härmälä: We are in the middle of merging the newly acquired entities. We had this two smaller ones earlier in the year, France and in the Benelux area and now the major one this Schneidersöhne and there are some accounting items which have been reported in this very report but a good lot of things we have to put through during the course of this year. On the other hand what I can tell is actually that Schneidersöhne is selling well and we are very positive about getting things under control pretty well and it should be a temporary issue what we are talking about now at this period end of the year.

Johan Swahn: Okay thank you so much.

**OPERATOR:**

From Morgan Stanley we have a question from Charles Spencer. Please go ahead.

Charles Spencer: Good afternoon I have three questions, just on your guidance for the fourth quarter are you basically saying that you're expecting an up quarter because some of the 70 million one off costs in this third quarter won't repeat and it sounds like with flat pricing and maybe rising cost that you maybe can't expect to fully retain the 70 million one off cost coming back in, in the fourth quarter?

Jukka Härmälä: We don't come out with any one number. Like said we are a little bit in a new situation and therefore we have been rather cautious about coming out with anything very specific as the situation is different from the past that is actually the main reason why we wanted to make a comment even on this fourth quarter being higher on an EBIT basis than the Q3. Hannu, do you want to say anything?

Hannu Ryöppönen: Just to make clear that when we say that it will be higher we are starting from the 106.9 million as our starting point not adding back this sort one off items. So we're saying it will be higher than 106.9 we are not talking about the magnitude of increase. Partly also I think here as Jukka was saying the new reason we are going into working differently throughout the year is also an issue that we will follow very carefully during the fourth quarter now.

Charles Spencer: Just to ask that maybe a different way, what do you think the season effects will be in this year's fourth quarter versus prior seasonal effects – it will be less I would imagine.

Jukka Härmälä: Most probably, but really when thinking about the Finnish part of the capacity when I say that the majority are running but not necessarily every single machine and we do have these maintenance stoppages still even to a higher degree for the last quarter of the year before being able to actually come to a very normal annual way of how to plan them.

Charles Spencer: Thank you. Second question is looking more at '06 versus '05 in your guidance on cost savings for this new programme it sounds like it will not be enough to offset your guidance on energy cost increases for next year, is that your view as well? So ex-pricing margins look to be falling?

Hannu Ryöppönen: You have a very quick calculator and I would tend to agree with you because as we also said early on or I said that the impact on that profit 2007 programme it's really starting to show up in the second part of next year i.e. on an annual basis obviously it will be heavy at the end so could draw that type of conclusion that they might go against each other and neutralise each other but that's way too early to still really comment in any specific way.

Charles Spencer: Okay and the final question is you talk about divestment of these assets, who are you divesting them too? Who are the buyers? Is it private equity or other smaller family paper business owners?

Jukka Härmälä: Yeah we will tell you exactly if and when there is a deal to materialise. We've seen these smaller units to be acquired by some local players sometimes some private individuals and also private equity, I don't want to speculate what's the most probably.

Hannu Ryöppönen: It is very difficult to say. The interesting thing is that when you announce this and this has been my experience before, buyers the most unexpected buyer can sometimes show up and this one technique also to announce them very openly that they are for sale and it's anybody's guess right now.

Charles Spencer: And is there a price you have in mind, if you don't get a certain price you'll actually shut them?

Jukka Härmälä: It was not in the announcement.

Charles Spencer: Could you say that again?

Jukka Härmälä: It was not in today's announcement.

Charles Spencer: Thank you.

**OPERATOR:**

That concludes the question and answer session. At this time Mr. Härmälä I will turn the call back over to you for any additional or closing remarks.

**Jukka Härmälä, CEO:**

Okay I really hope everybody was able to listen to us, we had severe problems in getting the whole thing started in the first place and even during our presentation there were a lot of disturbance I hope really you could follow what was going on. This is pretty much of a challenging situation we are in – I don't talk about the results as such but it's a fairly sizeable programme and programmes we are involved with and what we are planning to do is keep the world posted about this performance let's say see next time where we really are. Thank you for joining us today.

**OPERATOR:**

That will conclude today's conference. Ladies and gentlemen, thank you for your participation.