

Stora Enso  
Q2 2005 Earnings Conference Call  
July 27, 2005  
9:00 A.M.

**OPERATOR:**

Good day, everyone and welcome to the today's Stora Enso conference call. This call is being recorded and for the first part of this call, all participants will be in listen-only mode. After the presentation there will be a Q&A session, at which point you will have the opportunity to ask questions. I would now like to hand the call over to Mr. Keith Russell, Senior Vice President of Investor Relations. Please go ahead, sir.

**Keith Russell, SVP Investor Relations:**

Thank you. Good day, everyone. From sunny Helsinki, welcome to our conference call and webcast covering the second quarter and the first half of 2005.

The press release covering the results was issued about three hours ago and we trust that most of you have seen it. The full release, as well as the set of slides which we will refer to, are available now on our corporate website in the investor section.

The format for today's event will be for our group CEO, Jukka Härmälä, to provide his comments on the results and in more detail our views on the markets, using the slides as a reference.

Jukka's comments then will be followed by a Q&A session when we will be joined also by our CFO, Esko Mäkeläinen. The operator will provide more detail on how to ask questions at the appropriate time.

And finally, I need to draw your attention to slide number 2 of the presentation material, which concerns forward-looking statements.

So with that, I turn the microphone over to Jukka Härmälä.

**Jukka Härmälä, CEO:**

Yes, good afternoon everybody, Jukka Härmälä speaking here, and welcome to join us for this Q2 conference.

I'm not going to concentrate very much on the numbers because of the fact that we had this labour dispute in Finland affecting all the numbers. Going certainly to the total effect of the conflict, but as a comparison I don't think we really have to compare this quarter to the previous one, for this very reason.

I would start with the highlights, being on page 3, summarising some of the things affecting our second quarter performance. First of all, our sales was slightly up from the previous quarter, whereas operating profit was down to below 18 million on a non-recurring item basis, leading to a result which was more or less exactly zero, also for the EPS being a zero.

For the demand, we did record an increase moderately for newsprint and uncoated fine paper and some decrease in coated fine paper for this very period and the profitability was impacted by two main items and by and large the big one was the dispute in the Finnish labour market. Something I'm coming back to on a separate basis in a moment. We did gain somewhat because of the strengthening of the dollar and from an operational point of view, you may remember, we had a good lot of machinery under rebuild during the first quarter, and fortunately enough all of those have been now on stream, also facilitating a (indiscernible) performance of publication paper grades when having the Finnish capacity standing still, leading finally also to the fact that the proportion of our sales to Europe was higher especially during the month of June.

Then I'm coming back to the Finnish labour dispute. Even if we have been introducing guidance for the financial effect, once again to summarize on page 4, for the first -- for the second quarter, as a calculation basis we can say we lost production of paper and board to the extent of 850,000 tonnes, leading to a decrease of operating profit approximately 150 million. This is 3 million per day. And this of course, with the assumption of had we been able to run fully throughout period, even for the famous midsummer stoppage would not have been taking place.

Then, as the conflict was coming to an end, 1<sup>st</sup> July, and that was a moment after which we actually started our operations again in Finland, it leads to a calculated loss of production, or did lead approximately to 100,000 tonnes, but on top of it there are quite a few elements causing additional costs to the total amount of 40 million recorded then in the Q3, such as the typical start-up costs similar to what we've always had for midsummer compulsory stoppages, Christmas as well, and also the fact that some maintenance that would have been done during Q2 have been postponed and it's mainly going to be done during Q3 now. Also, the normalizing of inventories, to some extent, leading to a situation where the margin of that production is missing from the numbers for Q3. All in all, 40 million is the best estimate today. Still, as a result of the Finnish labour dispute.

What was achieved, even though I think it has been well said before, but there are a couple of main elements. First of all, this continuous production over the holiday period, i.e. Christmas and midsummer, they are now possible and that also is certainly in our plans even for this year for the coming Christmas period. And then the other one, somewhat more longer-term, as to the effect is the increased flexibility of outsourcing, where new rules are included in the new contract. All in all, I think this dispute, even though it was very expensive, it was the only way to go forward with unfortunately.

Now, my following comments are going to be on profit improvement programmes. Page 5. And first the one which was introduced hand in hand with the Q1 release and that is the 'Profit 2007'. We are planning to give more detailed information once the third quarter results are coming out.

All the elements here mentioned earlier, efficiency improvement, logistics, working capital, management, sourcing and administration, also having a critical look at the -- some of our assets, is still valid and we are confident that this target we set then at 300 million is something we are able to achieve. Let's see then for further details after this running third quarter comes to an end.

And then a few comments on the North American profit enhancement programme. Up till now we've always said it's running according to schedule. Now for the first time we are a little bit behind and that is mainly as earlier I would say due to the personnel related labour negotiations. They have not been totally completed as of now, but we are very hopeful we will come to an agreement for the remaining one during the second half of the year. Difficult to put an exact date on this now. All in all, the goal itself is still valid, but the final part of it will be only achieved during the second half of this year. Some delay, nothing very dramatic as such.

Then I would continue with the North American business results. Page 8. We have made an EBIT deficit of 33 million, close to half of it was because of the rebuilds during the first quarter of the year, and what we are expecting now is to reach black numbers for the second -- from the third quarter now onward. Probably worth noting is that the cash flow of the Capex has been all the way now positive.

Then, I would continue with share buy-backs. Page 14. First only to notice that up till the end of the closed period a couple weeks back, out of the new 10% limit we have been buying back about 1/3 of this very limit. And having a little bit broader, a longer view on the return to shareholders, page 15, where we have piled up dividend and share buy-backs as a total thing. Our dividend recently has been very stable, and about 400 million per year has been the total amount. And now also probably worth noting is that the buy-backs are

having a significant impact on top of the dividend payments. This year, for the first six months we are close to the total of year 2003 consumption of money for this very task.

Then I would change over to market outlook. Where we have the traditional two pages first 18 for Western Europe and 19 for North America. Before going into any detail, a couple of general comments. The global demand generally speaking is relatively good, with modest growth in most grades, both in Western Europe and North America. Demand in emerging markets continues to grow rapidly and has to some extent contributed to balance out European structure and over capacity in printing and writing grades. The industrial dispute in Finland temporarily reduced the supplies to the market, especially magazine and coated fine paper. That is the only part of our capacity in these grades located in Finland. The disruption in production did not jeopardize our strong customer relationship.

However, some of our customers would most likely review their purchasing from Finland as a whole, in view of the country risk. All in all, the situation we are in today, facing the central European holiday period after which the seasonal high time should come and at the same time the closed down capacity of the whole of Finland coming now on stream makes the situation and commenting on the future outlook a little bit more complicated than normally.

Now, paper in Europe. First newsprint. Newspaper ad volumes are rising in most European markets, but circulation is shrinking further in the two largest markets, Germany and the UK. Newsprint demand was about the same as last year. Specialties performed better than the standard newsprint due to the inserts and other special publications. All in all, the short-term outlook for supply-demand balance is reasonably good due to low inventories, growing ad liners and North American capacity closures.

Then to magazine. European markets demand for SC paper was somewhat lower than in the same period a year ago, whereas coated magazine was practically unchanged from a year ago. Development in export markets was similar. SC declined while coated magazine increased.

Order books clearly increased in June, due to the dispute and are now strong both in SC and coated magazine. The demand for magazine paper is expected to pick up during the second half of the year, driven by seasonal factors and growing advertising. European prices have remained stable and prices for non-contractual business are expected to improve somewhat in the lower priced categories.

Coated fine paper. After a weak Q1, the demand improved in Q2 and was higher than in the same quarter a year ago. Overseas exports now declined, as a result of this Finnish paper conflict. Merchant and producer inventories combined are below long-term averages

and order inflow is following the normal seasonal pattern. Some price pressures existed in the summer months, but are expected to stabilize during the autumn period.

And finally, for Europe, uncoated fine paper. Western European demand improved in Q2, and was higher than in the same quarter a year ago. Merchant and producer inventories combined are below long-term average. Price pressures have eased due to the improved supply demand balance.

Let me then turn to page 30, North America, the US. First, magazine. Magazine ad pages continue to grow, if only rather slowly. Catalogue circulation has continued to grow, but at a slower pace than last year. Magazine paper demand has been mixed for the year so far, with uncoated showing a strong growth while coated grades have advanced more moderately. Looking forward, Magazine paper markets are expected to tighten considerably during the catalogue season and the ongoing labour dispute in Canada. July price increases were implemented for non-contractual businesses.

And finally, to US coated fine paper. Coated fine paper demand weakened in Q2 after a good start to the year. The sheet market has been slow while activity in the web market has been better. Producer inventories are currently high. Market prices for coated fine paper reels improved somewhat in Q2, and sheet prices were at the same level as in Q1. Seasonal pick-up in demand is anticipated and prices should stay stable.

Now, to packaging boards. Demand was firm in Q2 and prices for consumer boards and some specialty papers rose. Demand outlook in the main grades continues to be steady; order backlog is good and inventories low. In food service boards the seasonal upswing in demand started towards the end of Q2. Prices are predicted to be stable in the main grades and some increases are expected in core boards and specialty papers.

Then on to wood products, where global consumption remains fairly good. Strong seasonal demand in the European housing market and improved supply and demand balance support prices in the short-term, especially in European and North African redwood markets. On the other hand, high production in southern Sweden put some pressure on European whitewood markets. This is, as you may remember, as a result of the storm earlier in the year.

And finally, when it comes to Asia the fine paper demand has been growing steadily, but prices have been under some pressure due to the new local capacity.

That is the current market situation and if I end the presentation with a short summary on page 21. First, the Finnish labour dispute as already explained ended 1<sup>st</sup> July, having its impact both on Q2 to the extent mentioned earlier, and even for the current Q3, this 40

million. As a result, on the other hand, significant changes in labour practices have been achieved to be put through in the years to come. In Europe, demand for advertising driven paper grades, I expect to remain good, and this Finnish labour dispute definitely did contribute to very low levels of inventories to be normalized now during the second half of the year. And North America, like I said, the seasonal pick-up for magazine and coated fine paper is expected to materialize and, some, mainly these non-contractual price increases are expected.

That's about the current situation, and now me and my colleagues we would be ready for your questions. Thank you for listening to the presentation.

Q&A.

**OPERATOR:**

Thank you. The question and 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 touchtone telephone. If you are using a phone with a mute function, please make sure your mute function is turned off to allow your signal to reach our equipment. Once again, please press \*1 on your touchtone telephone to ask a question. We will pause for just a moment to give everyone an opportunity to signal for questions.

We'll now take our first question from Tim Cahill with Goldman Sachs. Please go ahead.

Tim Cahill: Hey, guys, just a couple of questions if I may. First of all, looking at the inventory levels. Can you give us an idea of where inventories would normally be around this time of year and then maybe where they are right now? Just trying to get a feel for how much inventory rebuilding customers will need to do over the next quarter.

Jukka Härmälä: To be able to give a very exact answer, I'm afraid, it's rather difficult. What we found out during this labour dispute is that it is a rather long chain, probably somewhat higher than normally, but let me pick up some more facts.

If you have something else to ask while I try to pick up the relevant document.

Tim Cahill: Sure. The other question I had was in relation to magazine paper prices. I think this is the one area where you guys said there may be a chance to actually get some price increases through in August. I was wondering if you have made any developments on that at the moment.

Jukka Härmälä: Here we have a difficulty because of the reason I said. If Finnish capacity is coming back on stream, we are normalizing our flows. We do recognise there have been some price increase announcements out in the market place and up till now we have not done anything. We are a little bit more for, or let's put it, we have the opinion that the current prices would remain for the shortest period of time.

Keith Russell: Was there anything else, Tim?

Tim Cahill: Yeah, on the restructuring side of things, we saw an announcement from Norske Skog regarding the newsprint side, I was wondering is there any particular grades where you guys are looking at in terms of capacity closures?

Jukka Härmälä: Hand in hand with our 'Profit 2007' programme as we call it now, we are looking throughout the whole capacity with more critical eyes and so we don't have anything at least for the time being to comment on. We go through the whole palette and the judgment is being done in view of where the long-term profitability would not exist.

Tim Cahill: Is it fair to say that at the moment fine paper is the most challenged when you look at supply and demand balance in Europe?

Jukka Härmälä: That's probably correct.

Tim Cahill: Okay.

Jukka Härmälä: Esko, could you comment on this?

Esko Mäkeläinen: During the labour dispute our inventories went down in the paper industry side by some 200 million Euros and of course the most of that is the rebuild during the second half of the year. So that gives the magnitude of the reduction in inventories during the strike. There was some inventory building in the first quarter of the year, so that might mean that we wouldn't need all this 200 million to be rebuilt, but most of that.

Tim Cahill: So it's fair to say we could see at least a couple weeks extra production in the third quarter, relative to a normal third quarter of the year?

Jukka Härmälä: Well, first of all, we have to remember this starting period after the ending of the conflict, it certainly has paved the way for, say, a week, plus.

Tim Cahill: Okay.

Jukka Härmälä: And then the question of how much of in a way extra production could be actually done because of normalizing the inventories, if you may call it.

Tim Cahill: Good. Thank you very much.

**OPERATOR:**

Thank you. We'll now take our next question from Myles Allsop with UBS. Please go ahead.

Myles Allsop: Thanks. A quick question. Going back to the Norske Skog announcement this morning, they were saying that they were shutting this newsprint capacity due to persistent excess capacity in the European paper industry. Do you see that issue in the newsprint and publication paper grades as well?

Jukka Härmälä: For the publication capacity in Europe as a whole, you can say it has been constructed for export. If we only concentrate on the European markets, then you can say that there is overcapacity. On the other hand, these are very traditional markets outside Europe we have been delivering to, the industry and including ourselves. So it's a little bit of a relative issue to say how much of, what you call overcapacity, would exist.

Myles Allsop: Do you think the European industry needs to shut capacity, some more capacity in those grade areas?

Jukka Härmälä: Well, everybody has to judge it on their own, and this profitability prospect that's a yardstick we are applying to our internal thinking.

Myles Allsop: And then another quick question on Asia. You're saying the prices were under pressure due to the new capacity and you've been thinking, I believe, that you're going to build capacity in Asia. Are you getting more hesitant about that now?

Jukka Härmälä: What I particularly commented on was in the field of fine paper where good lot of this new capacity has been coming on stream. Generally speaking, bearing also in mind what we have said in the past, we became more cautious in our approach and have been trying to explore some niches where not everybody would be in a major way and that is pretty much how to describe our present attitude.

Myles Allsop: Slightly more cautious, and mostly on the fine paper side.

Just lastly on coated fine paper in the US and in Europe as well. In the US you're saying that demand weakened during the second quarter and that inventories are high. Do you think you'll be able to hold on to the price increases in North America?

Jukka Härmälä: Well, in the coated fine section I think we are having a standstill situation, as far as the prices are concerned. The imports have been growing quite rapidly, and therefore the market, you can say it was even to some extent under pressure. Now, facing the seasonal period we do have the feeling that we are having a pricing environment being fairly stable.

Myles Allsop: Okay. And then Europe as well, you are hoping for price increases?

Jukka Härmälä: Yes.

Myles Allsop: You're looking for price increases early on in the year so now you expect then to be fairly stable. Is that the kind of outlook for the rest of this year?

Jukka Härmälä: Well, somewhat earlier announcements. They've started actually to go through, but I'm afraid at this moment we can only say we pretty much failed in our attempt.

Myles Allsop: Okay, thank you very much.

**OPERATOR:**

Thank you. We'll now move to Olof Grenmark with Handelsbanken Capital Markets. Please go ahead.

Olof Grenmark: Yes, good afternoon, Olof Grenmark here. You said that the labour negotiations in North America were not totally completed. Could you please give us a number of how many employees we're talking about?

Jukka Härmälä: This is a little bit of a sensitive issue, but the most, say, difficult, or the one requiring the longest time seems to be our Canadian operation and partly describing also the overall North American situation, where in Canada the situation is a little bit more complicated than in the US.. And how many people do we have there on the payroll?

Esko Mäkeläinen: Less than 1,000.

Jukka Härmälä: Yes, can't remember. 100 -- anyhow, and we do have some open issues also when it comes to our US capacity, where we believe we are coming to an agreement

sooner than in Canada, but as everybody knows, these situations they can change even overnight.

Olof Grenmark: Okay. And then a second question, and that's regarding your near term market outlook and then more precisely in Western Europe. Last time in terms of packaging boards, I mean in connection with the Q1 report, you communicated that corrugated board prices were under pressure. Now you say that all packaging board prices are stable. Could you please comment on the corrugated side? Has that become better?

Jukka Härmälä: It has improved to some extent and bearing in mind we are not operating in most of the western European markets at all. And we are mainly around the Baltic Sea area, so the current situation is exactly what has been said here.

Olof Grenmark: Okay, but within your areas it has improved somewhat relative to Q1, is that correct?

Jukka Härmälä: Correct.

Olof Grenmark: Okay, thank you, that's all for me.

**OPERATOR:**

Thank you. From Morgan Stanley we'll now move to Charles Spencer. Please go ahead.

Charles Spencer: Yes, good afternoon. I have three questions. The first is, could you discuss the cost savings that you're going to achieve from the renegotiated Finnish labour contracts?

Jukka Härmälä: Well, to calculate anything precise is totally impossible for the time being. The easier one is the possibility to run continuously over the long holiday period, where you may remember we have a kind of an extra burden somewhere in the range of, say, around 30 million twice a year. Good lot of this can be avoided. Not totally, but part of it. If the markets allow us to run. In any case, what is going to happen is to be able to spread out the period where we want to stand still for maintenance reasons or even for the markets in a total different way than in the past. So this will be the more immediate as something which is totally in our hands. When it comes to outsourcing, then we are speaking about services of various kinds, and related types of work, generally outsourced in many other industries and now also in other countries. There is a formula for the process. Somewhat time consuming and may vary from mill to mill even to a great extent and there we are not able to make any kind of calculation. We are much wiser later in the year once these

processes have been started. They have started, but we have not come into any kind of position we could comment on that yet.

Charles Spencer: Okay. In that regard, the second question is why is the impact of the labour lock-out much higher in the third quarter as a percentage of your total production, lost production. It seems to be about 400 Euros per tonne versus under 200 Euros per tonne if spread across the second quarter.

Jukka Härmälä: Well, if first, 150 is 50 in a way easier to calculate. It's had we been able to produce and sell the full capacity, even through this midsummer period, which traditionally has been the closed one, this 150 would have been the case.

Now, after the end of the dispute, 1<sup>st</sup> July. First of all, the people coming back to work, they had a few days grace period and little by little did we actually start the production. The more complex, the longer it actually took before reaching the qualities. This is very similar to the compulsory say midsummer or Christmas stoppages where the lost production is not the only element, but the related start-up costs are fairly significant and this is one of the elements adding up additional cost for the time being.

Then, some of the maintenance work that would have been done coinciding with the compulsory stoppages would now be done mainly during the third quarter and it could even be some spread out, depending on the market situation and the exact position of a mill, to the fourth quarter. So there are more elements than just the loss of production.

Charles Spencer: And lastly, what could Veracel contribute on a full-year basis at current price levels?

Jukka Härmälä: Well, we have been running only for a couple of months really. The first tonnes have been delivered and it is a little bit too early to say. Still, we stand for our comments that this is the most cost competitive short fibre pulp mill in the world and if things do develop the way they look now, things are running pretty smoothly, actually, then once we finally draw the plans for next year, that will be the time to comment a little bit more. I would then not come out with any numbers today. On the other hand then, how to treat Veracel in our P&L. It's going to be two-fold. There will be our share of Veracel's pre-tax profit shown as associated company, part of that line we have in our P&L, but that's not based on the market price but on a pricing formula agreed with our joint venture partner, Aracruz. On the other hand, when delivering the pulp to our units, it is going to be done based on the market price, and what is gained is going to be based on our internal decision and going to be the recorded under fine papers in the future. So it's going to be coming through two different lines.

Charles Spencer: And can you give us any more information on this formula? Is it a very low price that's being used so we should expect low contribution in associates? And why is there formula like this?

Jukka Härmälä: Well, first of all, this is a joint venture taking into account various elements, not to forget the taxation and related issues, so we came to this very conclusion, but when it comes to how it's going to be divided between the two lines. Less in the associated than under fine paper in the future.

Charles Spencer: And just to -- I know you don't want to get into too many numbers, but I have heard that it's one of the lowest cash cost mills in the world. Numbers of something like \$150 per tonne cash cost, could lead us to believe that maybe 250 a tonne of delivered cash costs, including financing could be reasonable. Is it possible that this mill could contribute as much as \$300 per tonne split between you and Aracruz at current prices of, say, 550?

Jukka Härmälä: Let's see, once we are running on a constant, stable, basis before commenting on this. We'd be a little cautious in giving out numbers. We will do it at a later stage.

Charles Spencer: Okay, thank you.

**OPERATOR:**

Thank you. We would now move to Lars Kjellberg with CSFB. Please go ahead.

Lars Kjellberg: Yes, hello gentlemen. A couple of follow-up questions to start off with. I did not quite follow Jukka when you commented on how difficult it is to read the market in the magazine papers yet at the same time saying that inventories are at low levels, you have good order books and how can it be possibly difficult to read that market? It sounds like a strong market to me. Do you have any comment to that?

Jukka Härmälä: Well, we are coming out of a very unique situation, being in a way with certain parts of capacity out altogether something like seven weeks. And in the meantime our customers have been definitely buying from wherever on top of what they've been getting from us and how does this play get back into normal in a way, and currently especially when we have this summer holiday season in the main countries. We find it very difficult to have a very strong opinion on this issue.

Lars Kjellberg: But at the same time you're saying that your order books are good?

Jukka Härmälä: They are good, no question about it.

Lars Kjellberg: And why is that difficult to read, then, if they're good?

Jukka Härmälä: Well, there is an element called 'customer relationship', as an example.

Lars Kjellberg: Coming on to the North American situation, you say you're slightly behind schedule there. You aimed at 445 million. Can you give us any sense of how much behind you are on that schedule? In terms of money?

Jukka Härmälä: I don't have any number here. It's not dramatic, but what we said already earlier, the most crucial elements we still have in front of us, already when coming out with the Q1 results, was really the labour negotiation. The ones we have left. And depending highly on the final outcome, including the various, not only the normal pay, but various benefit related. We have to see what the outcome is.

Lars Kjellberg: Okay. And --

Jukka Härmälä: It's not dramatic. It's not very dramatic with the assumption of getting through new agreements without any conflict.

Lars Kjellberg: All right.

Jukka Härmälä: Something we believe, but you never know until the end of the day.

Lars Kjellberg: True. When you going into 2006, this year you're talking about Capex levels close to depreciation. What are you looking at, what kind of Capex levels for 2006? You earlier said you're going to pull them down a bit. But where do you stand today on that?

Jukka Härmälä: When it comes to our traditional markets, Europe and North America, hardly anything has been decided. Except for having a certain level of maintenance and what we've also said earlier is to leave room for the emerging markets, if we do find suitable, reasonable, projects to decide on. Now, the longer we go along this year without any decisions, certainly whatever is done is then time-wise going to be later, so let's see what happens. In any case, this old saying 'not to exceed the level of depreciation' is the rule for it.

Lars Kjellberg: Would you say at this stage that a meaningful reduction is likely, or wouldn't you want to comment at all?

Jukka Härmälä: Well, it's a little bit speculative. But could be that direction.

Lars Kjellberg: Okay. Thank you.

**OPERATOR:**

Thank you. We'll take our next question from Thomas Brodin with Smith Barney. Please go ahead.

Thomas Brodin: Thomas Brodin, Smith Barney here. A question regarding magazine papers in North America. The future increases in what you call non-contractual business. Will that be led by contractual business prices going up as well? And could you give some kind of elaboration what is the current difference between contractual prices and non-contractual ones?

Jukka Härmälä: Well, in very rough numbers in the magazine area you can say that less than 20% is non-contractual. So the bulk is based on contracts, more or less similar to North America and Europe in this respect. Whether we are able to go up with these contracts as well in North America, time will show, but normally we would certainly try.

Thomas Brodin: Is the non-contractual prices lower than the contractual ones now, or not?

Jukka Härmälä: Not necessarily at all.

Thomas Brodin: No. Okay. And then there's been a lot of talk on the call regarding the impact of the strike, as it is very much taken care of the customers. What is your message to the customers when business will be back to normal and the customers can get paper with normal deliveries? When do you think the market will be back to basics?

Jukka Härmälä: I think the last testing point, and that goes pretty much with magazine, especially news, but also to some magazine grades, it's going to be towards the end of year when we are discussing and hopefully concluding the deals for next year. That would be to my mind the last moment to see whether there are any new ideas in view of this country risk. Something I guess would not be the case, but that's a testing point.

Thomas Brodin: Okay, and then the final question. On your market outlook with the pages where you have the arrows, if you can just clarify, are you talking about your price moves, or how do you see the whole market? Because in fine paper in Europe, in magazine papers in Europe, there are actually price increase announcements out there but you think it will be a flat pricing. While in Asia, for instance, you you're saying that prices will go down. Does that mean....

Jukka Härmälä: These are our arrows.

Thomas Brodin: So that means, for instance, in fine paper in Asia you're lowering prices, you are part of that. That's how to read it, right?

Jukka Härmälä: Correct.

Thomas Brodin: Okay. Thank you.

**OPERATOR:**

Thank you. We'll now move to Mads Aspren with Merrill Lynch. Please go ahead.

Mads Aspren: Thank you. First of all, on the translation difference and your changes for the different assets in the interest bearing liability changes, can you explain the maths behind this increase of 143 million Euro in the net debt caused by this?

Jukka Härmälä: Esko, please

Esko Mäkeläinen: Most part of that comes from our US operations because we are financing US assets with US loans. And increase of our loans into Europe is the translation increase in there.

Mads Aspren: And you wouldn't be off-setting that against appreciation of the value on your assets?

Esko Mäkeläinen: No, it's not affecting total net debt in that way. It increases net debt in any case.

Mads Aspren: Okay.

Esko Mäkeläinen: But in the equity side we have our hedging in place and that's why equity issues are constant.

Mads Aspren: Okay, thank you. And a question on criteria for operating mills and machines. When Norske Skog closed or decided to close its Union mill that was despite the fact that this mill is operating a reasonable cash flow, I think. What criteria will Stora Enso be using? Presumably you have a number of mills that probably doesn't have any better operating margin than this mill up in Norway. What will you use when you make decision for closures or not closures over the next few months?

Jukka Härmälä: Well, in the history, I think we've been pretty much focusing on the final cash flow Euro and now the focus is pretty much changed to the real long-term competitiveness of these assets. We probably are much wiser in explaining the whole story at our next meeting.

Mads Aspren: But, as an example, if you closed Reizholz, for example, I'm sure it's nicely cash positive, if that tonnage was moved to Kvarnsveden that presumably would improve your bottom line tremendously. Would that be something you would consider?

Jukka Härmälä: I don't comment on your speculation.

Mads Aspren: Okay. Thank you.

**OPERATOR:**

Thank you. We'll take our next question from Richard Nilsson with Enskilda Securities. Please go ahead.

Richard Nilsson: Good afternoon. A couple of questions. First on the strike cost that you mentioned in your report. The 40 million expected for the third quarter. I was wondering if there will be other offsetting factors like for example very high production which means that in fact in total the effect will be positive in the third quarter.

Jukka Härmälä: Most probably not for the third quarter. We would hopefully get something back then for Christmas.

Richard Nilsson: Yeah, okay. And then also, on the magazine paper market, there have been many questions about the announced price hikes and you say that in the short-term you have a more cautious view. Do you think it's possible you could revisit this market outlook statement when the market is sort of back more to normal in a couple months, or do you view this as a statement which is true for the remainder of this year?

Jukka Härmälä: Well, this is our current statement.

Richard Nilsson: OK, how do you view the market? When is the market back to balance again, do you think? December, or something like that?

Jukka Härmälä: Towards the second half of this year, I would say. Like already pointed out, there are some main elements, the final ones, testing points really, they are the contract negotiations for next year.

Richard Nilsson: Yes. And then also, on the five million, the reversal of this CO2 charge and the 4 million non-cash item relating to share base payments, are they part of other in EBIT or part of any division?

Esko Mäkeläinen: They are part of other.

Richard Nilsson: Other. Great. And then finally one question on wood products. The EBIT has been going up and down in Q1 and Q2. Could you shed some light on your expected EBIT development for the remainder of this year compared to the second quarter?

Esko Mäkeläinen: Could you repeat.

Richard Nilsson: Yes. The wood products result was clearly better than anticipated in the second quarter, the loss in Q1. I was just thinking if you could shed some light on your thoughts on the remainder here for the wood products division EBIT. Do you have any strong views, if Q2 was exceptionally strong maybe?

Jukka Härmälä: Yeah, difficult to forecast. Again for this Q2, if you follow the history, we've been on the high side of production because of the construction period and all that, but there should not be a very dramatic change in the say during this quarter.

Richard Nilsson: Great, thank you very much.

**OPERATOR:**

Thank you. We'll take our next question from Linus Larsson with ABN Amro. Please go ahead.

Linus Larsson: Good afternoon. I have a few questions. The first question relating to currency and I'd be curious to hear what kind of hedging you have for the next 12 months going forward.

Esko Mäkeläinen: Our hedging rate is probably 1/3 of Dollar and Pound Sterling flows to Euros at the moment, and that's calculated over 12 months period.

Linus Larsson: Okay. And is that where you want to be going forward; is that a level where you are comfortable to remain for the next year or so?

Esko Mäkeläinen: Our target level is actually to have hedging in place up to half of our flow, so we are a bit lower than we would like to be.

Linus Larsson: Okay, great. Secondly, relating to the acquisition of Schneidersoehne, I just wondered if you could give some kind of indication of the EBIT contribution that we should expect and when that is expected to be consolidated into your merchant line.

Jukka Härmälä: Well, first of all, in the process what you probably have seen happening only a couple of days back is the clearance from the Competition Authorities. From that point of view we have definitely taken a concrete step forward. Not unexpected. Dealing with a family-owned company, the due diligence process, has probably been a little bit longer than what we anticipated, hopefully now coming to an end. We don't have an exact date, yet to be announced. Hopefully sooner than later, but like said, dealing with a family-owned company, you have these positive and negative elements coming up. Little bit in a different way than dealing with like a public company.

Shneidersoehne they've been rather profitable as a merchant then on top of what they would produce we certainly do have some synergies in our targets, but these we are not able and willing to comment before we come to the final deal.

Linus Larsson: But you would say that looking at EBIT margins they would be in the upper end of the range within their industries?

Jukka Härmälä: That's what the history has been.

Linus Larsson: Okay, and you wouldn't like to specify more exactly?

Jukka Härmälä: Well, as they have not published anything, the deal is not through. We will not do it now.

Linus Larsson: Okay. Just lastly, now that the labour dispute is behind us, should we expect positive benefit already in the fourth quarter of this year, given that you will be able to run flat out over the Christmas season?

Jukka Härmälä: Yes.

Linus Larsson: And would that be in the full magnitude of what your historic....

Jukka Härmälä: The markets are going to show the final thing. According to the new rules, it's about two months prior to that period when we finally fix it whether we run or not and it's not 100% or zero. It can be anything in between.

Linus Larsson: Okay, that's great. Thank you.

**OPERATOR:**

Thank you. We'll now move to Johan Sjöberg with Carnegie. Please go ahead.

Johan Sjöberg: Yes, good morning. Good afternoon, rather. I had a question regarding the part of fine paper deliveries that are currently being transferred through your merchandising operations and where do you expect that to land following the acquisition or the completion of the acquisition of Schneidersoehne?

Jukka Härmälä: What more could I say on top of what I said earlier?

Esko Mäkeläinen: Structurally we are distributing some 1/3 of the merchant volume coming from our own mill. That's the case.

Jukka Härmälä: It varies from country to country to some extent. Germany certainly being the biggest market and there this figure Esko mentioned is pretty valid.

Johan Sjöberg: Okay. Looking at the North American business, given your predicting an EBIT of black figures in your third quarter. Could you say something about the fourth quarter also given today's market prices?

Jukka Härmälä: Well, for the EBIT, once we come to black figures, we should remain there. No question about it.

Johan Sjöberg: But are you projecting full year to be on breakeven result in North America?

Jukka Härmälä: I don't want to comment just now.

Johan Sjöberg: Okay. Thank you.

**OPERATOR:**

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

**Keith Russell, SVP Investor Relations:**

Thank you very much, operator. I'll just say that we've had a solid hour now and, unfortunately, other commitments mean we need to stop. If there is anyone else that still has questions, they can of course contact me directly or Ulla Paajanen-Sainio after the call. Jukka, I don't know if you have final comments.

**Jukka Härmälä, CEO:**

First of all, thank you everybody, for joining us today, and I fully understand the curiosity of the near term outlook, but bearing in mind the rather exceptional period we've been coming through, this Finnish conflict, it's more complicated than what we normally have been experiencing to make very firm statements on what's going to happen, only that the volumes, they seem to be developing well. What on earth then happens with the prices, we'll see. Anyhow, thank you for joining us today.

**OPERATOR:**

That concludes today's conference. Thank you for your participation and have a good day.